Supreme Court, U. S.
FILED
JAN 30 1975
MICHAEL RODAK, JR., CLERK

APPENDIX

In the Supreme Court of the United States

OCTOBER TERM, 1974

No. 74-22

IVAN ALLEN COMPANY,
Petitioner,

vs.

UNITED STATES OF AMERICA,
Respondent.

ON WRIT OF CERTIORARI TO
THE UNITED STATES COURT OF APPEALS
FOR THE FIFTH CIRCUIT

PETITION FOR CERTIORARI FILED JULY 26, 1974
CERTIORARI GRANTED DECEMBER 16, 1974

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DOCKET ENTRIES

May 14, 1971 Complaint with Exhibits A, B, C, & D, filed. Summons issued and delivered to U.S. Marshal.

May 17, 1971 Marshal's return on ser. executed 5-17-71 as to U.S. Atty. & executed 5-17-71 via Cert. mail as to Atty. Gen., filed.

July 15, 1971 ANSWER of def. with DEMAND for a jury trial, filed.

Aug. 26, 1971 Deft's interrogs. to pltf., filed.

Sep. 21, 1971 4 Month Notice sent to counsel.

Oct. 13, 1971 Def.'s Response to 4 month notice (letter), filed. TO RMS

Oct. 15, 1971 Pltf's. Response to 4 month notice (letter) with 2 attachment, filed. To RMS.

Nov. 12, 1971 Pltf's Answers to Defts. Interrogs., with attachments, filed.

Dec. 23, 1971 Notice to counsel requesting PT order by 1-31-72. (per CAM)

Feb. 3, 1972 Counsel advised PTO now due 3-1-72 (counsel advised ct. settlement possible).

Feb. 11, 1972 Set for jury trial on cal. commencing 3-13-72. Counsel advised.

Feb. 23, 1972 Ext. to 4-1-72 by CAM for submitting prop. PTO. Off cal. 3-13-72. Counsel advised.

Mar. 14, 1972 Request for production of documents under Rule 34, filed.

Mar. 28, 1972 Consent Order extending time thru 4-20-72 for a Consolidated Pre-Trial Order to be filed, filed. (Copy to counsel – 3/28/72)

Apr. 19, 1972 Deft's response to pltf's request for production of documents, filed.

Apr. 20, 1972 Proposed Consolidated Pre-Trial Order, Rec'd. TO RMS

Apr. 27, 1972 Deft's certificate as to production, with documents, attached, filed.

May 4, 1972 Pltf's motion for Order compelling discovery under Rule 37 with attachment, filed. To CAM.

Pltf's memo of points & Authorities in support of motion, filed. To CAM.

May 18, 1972 SUBMITTED ON PLTFS' MOTION FOR ORDER COMPELLING DISCOVERY UNDER RULE 37.

May 22, 1972 Defts. opposition to pltfs' motion for order compelling discovery under Rule 37 with memorandum of points & authorities & exhibits "A" thru "D", filed. To CAM.

May 24, 1972 Set for jury trial on cal. commencing 6-19-72 at 10 a.m. Notice to counsel.

June 8, 1972 ORDER on motion to compell discovery that Ct. having been informed the prtys. have entered into a stipulation . . . which may render moot plf.'s motion . . . ruling deferred pending action by the Ct. on said stipulation, filed. (c. counsel)

June 12, 1972 Stipulation with Exhibits A & B, filed.

SUBMITTED PURSUANT TO ORDER OF JUNE 8, 1972 and STIPULATION FILED THIS DAY.

June 14, 1972 Case removed from trial cal. for 6-19-72; Counsel to file briefs as follows: Pltf's. – due 7-12-72, Deft's. reply – due 8-1-72 and P.tf's rebuttal – due 8-11-72.

FILE RETURNED – RESUBMIT AFTER 8/11/72. (see note in file)

July 12, 1972 Brief on behalf of taxpayer, Ivan Allen Co., with Exh. A & B, filed.

July 31, 1972 Trial brief for the deft., filed.

Aug. 11, 1972 Reply brief on behalf of taxpayer Ivan Allen Company, filed.

Aug. 15, 1972 RESUBMITTED PURSUANT TO ENTRY OF JUNE 8, 1972 AND STIPULATION FILED 6/12/72.

Oct. 6, 1972 ORDER filed directing the Government to refund all accumulated earnings taxes, including interest thereon, collected for the taxpayer's fiscal years ending June 30, 1965 and June 30, 1966. Copy to counsel.

Oct. 18, 1972 Stipulation, filed. To CAM for approval.

Oct. 26, 1972 ORDER approving above stipulation & dismissing issue (Par. 1), deft. has refunded to pltf. the interest in question, filed. Copy to counsel.

Dec. 18, 1972 set for non-jury trial 1-8-73, counsel notified.

Feb. 9, 1973 set for non-jury trial 2-12-73, counsel notified.

May 3, 1973 Stipulation, with approval of Court that the "salary issues" involved be dismissed with prejudice, each party to bear its own costs with respect thereto, filed. Copies furnished.

JUDGMENT filed & entered that the pltf. recover from the deft. the sum of $150,515.85 in accumulated earnings tax paid to the deft. for the taxable years ended June 30, 1965, and June 30, 1966, plus int. thereon as provided by law & that the pltf. recover its taxable costs from the deft. to the extent such costs are attributable to the issue relating to the accumulated earnings tax involved. Copies furn.

June 28, 1973 Defendant's Notice of Appeal, filed. (c. counsel & USCA w.d.s.)

August 2, 1973 RECORD MAILED ON APPEAL TO USCA. (ACK 1of2)

May 29, 1974 Certified Copy of Judgment from USCA REVERSING AND REMANDING The judgment of the U. S. District Court for the additional factual determination of whether one purpose for the accumulation was to avoid income tax on behalf of shareholders in accordance with the opinion of USCA & directing that pltf-appellee pay to the deft-appellant the costs on appeal to be taxed by USCA, with copy of Bill of costs in the amount of $199.20, with opinion rec'd. (TO CAM) (w/file)

June 11, 1974 ORDER making mandate the judgment of the U.S. District Court, filed. Mandate, filed.

Bill of costs taxed in U.S.C.A. against pltf. in sum of 199.20, filed.

Notice to all counsel in compliance with Local Rule 141.4.

Oct. 8, 1974 Notice to counsel requesting consolidated proposed PTO by 11-1-74.

Oct. 15, 1974 Notice to counsel setting for non-jury trial 11-4-74.

Oct. 23, 1974 ORDER removing this action from 11/4/74 trial calendar and CONTINUING same pending the decision of the Supreme Court on pltf's petition for writ of certiorari; and counsel for pltf shall notify court upon receipt of notice of the Supreme Court's ruling, filed. (Copy counsel 10/25/74)

IN THE
UNITED STATES DISTRICT COURT FOR THE
NORTHERN DISTRICT OF GEORGIA
ATLANTA DIVISION

CIVIL ACTION NO. 15130

IVAN ALLEN COMPANY,
Plaintiff,

vs.

UNITED STATES OF AMERICA,
Defendant.

COMPLAINT

(Filed May 11, 1971)

COMES NOW IVAN ALLEN COMPANY, plaintiff, and brings this action against the UNITED STATES OF AMERICA, defendant, and respectfully shows:

1.

Jurisdiction of this Honorable Court is invoked under 28 U.S.C. §1346(a)(1). This action is a civil action against the United States of America, for the recovery of internal revenue taxes erroneously and illegally assessed against and collected from the said Ivan Allen Company for its two taxable years beginning July 1, 1964 and ending June 30, 1965 and beginning July 1, 1965 and ending June 30, 1966.

2.

The plaintiff, Ivan Allen Company (hereinafter referred to as "Taxpayer"), is a corporation organized and existing under the laws of the State of Georgia, with its principal office and place of business in Atlanta, Fulton County, Georgia, within the Atlanta Division of the Northern District of Georgia.

3.

Taxpayer's claim is for the recovery of $18,752.27 in principal amount of income taxes and $150,515.85 in principal amount of accumulated earnings taxes with the interest assessed thereon, all of which were erroneously and illegally assessed against and collected from Taxpayer by the Secretary of the Treasury or his delegate for the taxable years of Taxpayer ended June 30, 1965 and June 30, 1966, respectively.

4.

In each of the taxable years in question, Taxpayer kept its books and prepared its Federal income tax returns on the accrual basis of accounting. Taxpayer filed its return for each of the said taxable years and paid the tax shown as due thereon to the District Director of Internal Revenue Atlanta, Georgia.

5.

Upon audit of Taxpayer's returns for the taxable years in question, the Secretary of the Treasury or his delegate determined, but Taxpayer denies, that the salaries which Taxpayer paid Mr. Ivan Allen, Sr. and Mr. Ivan Allen, Jr. constituted unreasonable compensation and could not therefore be deducted as ordinary and necessary business expenses under Int. Rev. Code §162(a). The said Secretary or his delegate further determined, but Taxpayer denies, that Taxpayer had permitted its earnings and profits to accumulate beyond the reasonable needs of its business and that Taxpayer had been formed or availed of for the purpose of avoiding the income tax with respect to its shareholders by permitting its earnings and profits to accumulate instead of being divided or distributed within the meaning of Int. Rev. Code §532.

6.

As a result of the determinations set out in Paragraph 5 above, the Secretary of the Treasury or his delegate assessed additional income and accumulated earnings taxes against Taxpayer in the aggregate amount of $87,743.32 for the taxable year 1965 and in the aggregate amount of $81,520.30 for the taxable year 1966. Interest on said additional income and accumulated earnings taxes was also assessed against Taxpayer by the said Secretary or his delegate in the aggregate amount of $24,755.63 for the taxable year 1965 and in the aggregate amount of $18,108.78 for the taxable year 1966.

7.

Taxpayer paid said additional income and accumulated earnings taxes to the Director of the Internal Revenue Service Center, Chamblee, Georgia on or about June 1, 1970 and paid the interest on said additional income and accumulated earnings taxes to the said Director on or about November 20, 1970.

8.

On or about October 19, 1970, within the time provided by law, Taxpayer duly filed Claims for Refund of the said amounts of additional income and accumulated earnings taxes assessed against and collected from Taxpayer. On or about January 4, 1971, within the time provided by law, Taxpayer duly filed an amendment to the said Claims for Refund to include a claim for the refund of the interest assessed against and collected from Taxpayer on said amounts of additional income and accumulated earnings taxes. No decision has been rendered on the said Claims for Refund, as amended, by the Secretary of the Treasury or his delegate, and more than six months

prior to the filing of this suit have expired from the date on which the said Claims for Refund were filed.

9.

Copies of the said Claims for Refund for the taxable years in question and the amendments thereto are attached hereto, made a part hereof, and marked Exhibits A through D, respectively. Taxpayer incorporates herein each and every allegation of fact and each and every contention set out in the said Claims for Refund and amendments thereto.

10.

For the reasons stated in Taxpayer's Claims for Refund, said additional income and accumulated earnings taxes and the interest thereon were erroneously and illegally assessed against and collected from Taxpayer by the Secretary of the Treasury or his delegate.

11.

No part of the aforesaid $18,752.27 of additional income taxes nor any part of the aforesaid $150,515.85 of accumulated earnings taxes nor any part of the interest thereon erroneously and illegally assessed against and collected from Taxpayer by the Secretary of the Treasury or his delegate for the taxable years in question has been refunded to Taxpayer.

12.

By virtue of the aforesaid, the defendant United States of America became and now is indebted to Taxpayer in the full amount of $212,132.53 with interest thereon as provided by law.

13.

Taxpayer seeks refund herein of said additional income and accumulated earnings taxes and the interest thereon erroneously and illegally assessed against and collected from Taxpayer, with interest thereon from the dates of payment as provided by law, or such greater amount as may be legally refundable.

14.

Taxpayer has complied with all conditions precedent to the bringing of this suit.

WHEREFORE, Taxpayer prays that judgment be entered in its favor in the amount of $212,132.53 with interest thereon as provided by law, or in such greater amount as may be legally refundable, that the Court grant such other relief as it may deem proper, and that Taxpayer be awarded its costs.

King & Spalding
/s/ Kirk A. McAlpin
/s/ Stanley W. Rosenkranz
/s/ Herschel M. Bloom
Attorneys for the Plaintiff
Ivan Allen Company

2500 Trust Company of
Georgia Building
Atlanta, Georgia 30303

404/577-5350

Exhibit A

Form 843
(Rev. July 1965)

CLAIM

To BE FILED WITH THE DISTRICT DIRECTOR WHERE ASSESSMENT WAS MADE OR TAX PAID

The District Director will indicate in the block below the kind of claim filed, and fill in, where required

- [ ] Refund of Taxes Illegally, Erroneously, or Excessively Collected.
- [ ] Refund of Amount Paid for Stamps Unused, or Used in Error or Excess.
- [ ] Abatement of Tax Assessed (not applicable to estate, gift, or income taxes).

PLEASE TYPE OR PRINT PLAINLY

Name of taxpayer or purchaser of stamps
Ivan Allen Company

Number and street
P.O. Box 1712

City, town, State, Postal ZIP Code
Atlanta, Georgia 30301

Fill in applicable items—Attach letter size sheets if space is not sufficient

a. Your social security number: --
Wife's number, if joint return:
b. If an employer, enter employer identification number: 58-0136820

c. District in which return (if any) was filed: Dis. Dir. Ga.

d. Name and address shown on return, if different from above: same

e. Period—if for tax reported on annual basis, prepare separate form for each taxable year: From July 1, 1964, To June 30, 1965

f. Kind of tax: Income

g. Amount of assessment: $252,127.62

Dates of payment: $885.00: 10/15/64; $885.00: 12/15/64; $22,125.00:4/15/65; $22.125.00:6/15/65; $60,000:9/2/65

h. Date stamps were purchased from Government:

i. Amount to be refunded (If income tax, complete computation below): $87,747.32

$54,318.95:12/17/65; $91,788.67:6/1/70

j. The claimant believes that this claim should be allowed for the following reasons:

See Attached Statement

BEST COPY AVAILABLE

COMPUTATION OF INCOME TAX REFUND	Income Tax
1. Tax withheld	
2. Estimated tax paid	4[illegible],020.00
3. Tax paid with original return	11[illegible],318.95
4. Any additional income tax paid	91,788.67
5. Total tax paid (Add lines 1–4)	252,127.62
6. Less: Your computation of correct tax	164,380.30
7. Amount of overpayment	87,747.32*
8. Amount previously refunded	-0-
9. Net overpayment (Enter in item i above)	87,747.32*

Under penalties of perjury, I declare that this claim, including any accompanying schedules and statements, has been examined by me and to the best of my knowledge and belief it is true and correct.

Signed .....

Dated ....., 19.....

SEE INSTRUCTIONS ON REVERSE

FORM 843 (Rev. 7-65)

*Or such greater amount as may be legally refundable.

STATEMENT ATTACHED TO AND FORMING A PART OF THE CLAIM OF IVAN ALLEN COMPANY FOR REFUND OF INCOME AND ACCUMULATED EARNINGS TAXES PAID FOR THE TAXABLE YEAR 1965

I. *Salary Paid by Taxpayer to Ivan Allen, Sr.*

A. *Statement of Facts*

During the taxable year in question and during all the years of its existence, Ivan Allen Company (hereinafter referred to as "Taxpayer"), was engaged in the office supply business.

Taxpayer was founded in 1899 by Mr. Ivan Allen, Sr. and Mr. J. W. Fielder. At that time, the office supply business was unique, and Ivan Allen, Sr. may well have been its originator. He was undoubtedly the first in the southeast to visualize the idea of a department store of office equipment.

The business prospered in the early 1900's, and in 1920, Mr. Allen, Sr. was elected President of Taxpayer. In 1938 he became Chairman of Taxpayer's Board of Directors and served in this position until his death.

During a substantial portion of the period in which he served Taxpayer as President and Chairman of its Board of Directors, Mr. Allen, Sr. had the primary responsibility for the management and supervision of Taxpayer's business and was undoubtedly the major factor in its success and growth. Moreover, Mr. Allen, Sr. was responsible for a number of innovations in the office supply business, all of which contributed to Taxpayer's success. He originated an inventory control plan, which for years has been the most widely used plan in the business. With minor improvements, both the standard accounting forms and cost of doing business forms which Mr. Allen, Sr.

developed are still being used. He developed the quintuplet charge and billing system whereby the invoice, charge, delivery ticket, statistical record and salesman's slip are all made in one operation. Finally, Mr. Allen, Sr. was the first to capitalize on the use of "visual education" in the business. Indeed, as early as 1923, he suggested using films to demonstrate the various manufacturing processes and facilities connected with the stationer's industry.

Mr. Allen, Sr. was not only a successful businessman but also took an active part in numerous civic activities. He served as President of the Atlanta Chamber of Commerce, as President of the Southeastern Fair Association and was the first President of the Atlanta Convention Bureau. He served as a member of a small committee which raised the first substantial funds for the Atlanta area Boy Scouts and for many years served on the Executive Committee of the Council of Boy Scouts. Mr. Allen, Sr. was one of the original members of the Agriculture and Industrial Development Board of Georgia. He served as Chairman of the Forward Atlanta Commission, of the Fulton County Department of Public Welfare, and of a Committee which raised funds to reestablish Oglethorpe University. Finally, Mr. Allen, Sr.'s close relationship with President Franklin D. Roosevelt led to his appointment as Chairman of the Federal Home Loan Bank in the southeast and as Chairman of the Franklin D. Roosevelt Warm Springs Memorial Commission.

Thus, while Mr. Allen, Sr. was implementing the many innovations in the office supply business which he had developed, he was also engaged in various civic activities which drew attention to and created respect for both Taxpayer and Mr. Allen, Sr. It was this combination of Mr. Allen, Sr.'s business acumen and his various civic activities which led to Taxpayer's growth into a highly successful company.

Notwithstanding Mr. Allen, Sr.'s role in Taxpayer's success, his salary was always extremely modest. Indeed, throughout his years of service to Taxpayer, Mr. Allen, Sr. was paid a salary which was always less than Taxpayer's leading salesman, and frequently less than several of Taxpayer's salesmen.

In 1964, Mr. Allen, Sr. suffered a stroke which curtailed his activities with Taxpayer. At that time, he had served Taxpayer for more than 64 years, always at a very modest salary. Even after his sickness, however, Mr. Allen, Sr. continued to serve Taxpayer in a consulting capacity. In consideration of his services as a consultant and for the many years of service in which he was the major factor in Taxpayer's development, Taxpayer continued to pay him the very modest annual salary of $12,525.16.

Taxpayer deducted the amount of the salary which it paid to Mr. Allen, Sr. as an ordinary and necessary business expense for its taxable year 1965. The Commissioner determined, however, that the amount paid to Mr. Allen, Sr. constituted unreasonable compensation and that the payment should not therefore have been deducted. Accordingly, the Commissioner assessed a deficiency against Taxpayer for its taxable year 1965.

Taxpayer has paid the deficiency. This claim is filed for the refund of the deficiency so paid, with interest thereon as provided by law, or such greater amount as may be legally refundable.

B. *Taxpayer's Contentions*

(1) The amount which Taxpayer paid to Mr. Ivan Allen, Sr. constituted a reasonable salary for both past and present personal services actually rendered to Taxpayer within the meaning of Int. Rev. Code §162(a)(1).

The amount which Taxpayer paid to Mr. Allen, Sr. was, therefore, an ordinary and necessary business expense within the meaning of Int. Rev. Code §162(a).

(2) Under the contention stated above, the amount which Taxpayer paid to Mr. Allen, Sr. was properly deducted by Taxpayer under Int. Rev. Code §162(a). Accordingly, the deficiency assessed against and paid by Taxpayer constitutes an overpayment for which Taxpayer is entitled to a refund.

II. *Salary Paid by Taxpayer to Ivan Allen, Jr.*

A. *Statement of Facts*

Ivan Allen, Jr. was employed by Taxpayer in 1933. In 1938 he became Secretary-Treasurer of Taxpayer. In 1946 he was elected President of Taxpayer and in 1957 became Vice Chairman of Taxpayer's Board of Directors.

In 1962, Mr. Allen, Jr. was elected Mayor of the City of Atlanta and served in this capacity during the taxable year in question. Although his duties as Mayor limited the time which Mr. Allen, Jr. was able to spend on Taxpayer's routine matters, he continued to serve as Taxpayer's chief policy maker. For example, Mr. Allen, Jr. continued to receive daily communications with respect to the business problems confronting Taxpayer and often made daily responses. He continued to review all internal financial reports, including inventory and sales data, and was in frequent consultation with Taxpayer's officers with respect to merchandising lines, sales, personnel matters, inventory, accounting, and market extension. Mr. Allen, Jr. continued to determine both Taxpayer's sales policies and the character of its advertising and promotional operations. He also continued his primary decision making role with respect to Taxpayer's major expenditures, including

not only capital expenditures but also contributions to the Ivan Allen Company Foundation and to Taxpayer's profit sharing plan. In short, Taxpayer made no policy decision of any significance during the taxable year in question without first obtaining the advice and approval of Mr. Allen, Jr.

Even prior to becoming Mayor of Atlanta, Mr. Allen, Jr., like his father, contributed to Taxpayer's success by spending at least one-half of his working time engaged in civic and outside business activities. Nevertheless, Taxpayer's success during these years clearly attest to Mr. Allen, Jr.'s ability to operate Taxpayer while spending a substantial portion of his time engaged in activities other than the management and supervision of Taxpayer's affairs.

In 1948, Taxpayer paid Mr. Allen, Jr. a very modest salary of $12,000. As his responsibility and value to Taxpayer grew, Mr. Allen, Jr.'s salary was increased to $30,000. When Mr. Allen, Jr. became Mayor of Atlanta, however, Taxpayer recognized that the amount of time that he could spend on its affairs would be curtailed. Accordingly, beginning in 1962 and including the taxable year in question, Taxpayer reduced Mr. Allen's salary to $15,025.08.

During the taxable year 1965, Taxpayer paid its president, Mr. W. H. Glenn, a salary of $31,000, approximately double that of Mr. Allen, Jr. In the same year, nine of Taxpayer's salesmen received salaries greater than that of Mr. Allen, Jr.

Taxpayer deducted the amount of the salary which it paid to Mr. Allen, Jr. as an ordinary and necessary business expense for its taxable year 1965. The Commissioner determined, however, that the amount paid to Mr. Allen, Jr. constituted unreasonable compensation and that

the payment was not therefore deductible. Accordingly, the Commissioner assessed a deficiency against Taxpayer for its taxable year 1965.

Taxpayer has paid the deficiency. This claim is filed for the refund of the deficiency so paid, with interest thereon as provided by law, or such greater amount as may be legally refundable.

B. *Taxpayer's Contentions*

(1) The amount which Taxpayer paid to Mr. Allen, Jr. constituted a reasonable salary for personal services actually rendered to Taxpayer within the meaning of Int. Rev. Code §162(a)(1). The amount which Taxpayer paid to Mr. Allen, Jr. was, therefore, an ordinary and necessary business expense within the meaning of Int. Rev. Code §162(a).

(2) Under the contention stated above, the amount which Taxpayer paid to Mr. Allen, Jr. was properly deducted by Taxpayer under Int. Rev. Code §162(a). Accordingly, the deficiency assessed against and paid by Taxpayer constitutes an overpayment for which Taxpayer is entitled to a refund.

III. *Accumulated Earnings Tax*

A. *Statement of Facts*

Taxpayer's shareholders as of June 30, 1965 were as follows:

	No. of Shares
Allen, Beaumont	925
Allen, Hugh Inman	2615
Allen, Irene Beaumont	2265
Allen, Ivan Sr.	5650
Allen, Ivan Jr.	4580

Allen, Ivan Jr. Trustee U/W Charles M. Marshall	9650
Allen, Ivan III	2365
Allen, Ivan IV	110
Allen, Louise R.	2115
Allen, Margaret Poer	91
Ball, Jack T.	20
Brumbelow, Morris	10
Carnes, John	850
Dickerson, Elmer	300
Estes, Robert S.	40
Floyd, W. F. Jr.	515
Glenn, W. H.	2400
Hampton, James F.	25
Harris, Andrew D.	2
Harris, Grady W.	2
Harris, W. D.	475
Jones, Hayden C. Jr.	575
Lanier, D. B.	100
Layton, Estate of Charles R.	75
Murphy, J. H.	754
Ownby, O. G.	130
Ownby, O. G. Trustee for Roger Paul	10
Ownby, O. G. Trustee for Scott Alan	10
Patrick, James H.	25
Pettes, Thompson P.	25
Richardson, Walter	20
Snellings, Walter Arnold	22
Tebow, D. L.	200
Williams, J. C.	500
Wilson, S. W.	75
Winslow, T. E.	160
Total	37686

As an operating company, Taxpayer has a readily ascertainable operating cycle and a need for sufficient working capital to operate its business through at least one such cycle. Since Taxpayer's net liquid assets determined as of the end of the taxable year in question which were available for use in meeting its working capital requirements were less than its needs, Taxpayer retained a portion of its earnings and profits for the taxable year.

For a number of years, including the taxable year in question, Taxpayer has held certain marketable securities. Substantially all of these securities, however, were of corporations engaged in businesses related to that of Taxpayer. Moreover, since most of the securities had greatly appreciated in value, Taxpayer would have had to incur a substantial capital gains tax to convert them into cash. For these reasons, Taxpayer's management viewed the securities as business investments which were not available either for use in meeting Taxpayer's reasonable business needs or for distribution to its shareholders. However, even if the cost of Taxpayer's marketable securities are included in the computation of Taxpayer's net liquid assets, the cost of one of Taxpayer's operating cycles for the taxable year in question was still in excess of its net liquid assets determined as of the end of the taxable year.

Taxpayer does not have a history of making loans to its shareholders and possesses a record of regular and substantial dividends. Moreover, the income tax consequences to Taxpayer's shareholders have never been considered in determining its dividend policy.

Taxpayer's ratio of current assets to current liabilities for the taxable year in question was extremely small. Indeed, only a very insignificant amount of Taxpayer's

earnings and profits has ever been invested in assets other than assets directly related to the operation of Taxpayer's business.

Nevertheless, the Commissioner determined that Taxpayer had accumulated earnings beyond the reasonable needs of its business and that this accumulation was for the purpose of avoiding the income tax with respect to its shareholders. Accordingly, the Commissioner assessed an accumulated earnings tax deficiency against Taxpayer for its taxable year 1965.

Taxpayer has paid the deficiency. This claim is filed for the refund of the deficiency with interest thereon as provided by law, or such greater amount as may be legally refundable.

B. *Taxpayer's Contentions*

(1) The marketable securities which Taxpayer held and which had substantially appreciated in value were not available either for use in meeting Taxpayer's reasonable business needs or for distribution to its shareholders. For this reason, the marketable securities are excludable in computing Taxpayer's net liquid assets available for use in its business. The cost of one of Taxpayer's operating cycles for the taxable year in question thus exceeded its net liquid assets available for use in its business determined as of the end of the taxable year. Consequently, Taxpayer's earnings and profits for the taxable year in question which it retained were not in excess of and were retained by Taxpayer for the reasonable needs of its business, including the reasonably anticipated needs of its business, within the meaning of Int. Rev. Code §535(c). Accordingly, in computing its accumulated taxable income under Int. Rev. Code §535, Taxpayer is entitled to an accumulated earnings credit in an amount at least equal

to the amount of its retained earnings and profits for the taxable year in question (or in such lesser amount of its earning and profits for the taxable year in question as may be determined to have been retained by Taxpayer for the reasonable needs of its business, including the reasonably anticipated needs of its business.)

(2) Even if the marketable securities held by Taxpayer are includable in computing Taxpayer's net liquid assets available for use in its business, which Taxpayer denies, the cost of one of Taxpayer's operating cycles for the taxable year in question still exceeded its net liquid assets determined as of the end of the taxable year. Consequently, Taxpayer's earnings and profits for the taxable year in question which it retained were not, in excess of and were retained by Taxpayer for the reasonable needs of its business, including the reasonably anticipated needs of its business, within the meaning of Int. Rev. Code §535(c). Accordingly, in computing its accumulated taxable income under Int. Rev. Code §535, Taxpayer is entitled to an accumulated earnings credit in an amount at least equal to the amount of its retained earning and profits for the taxable year in question (or in such lesser amount of its earnings and profits for the taxable year in question as may be determined to have been retained by Taxpayer for the reasonable needs of its business, including the reasonably anticipated needs of its business.)

(3) Even if the earnings and profits which Taxpayer retained exceeded the reasonable needs of its business, including the reasonably anticipated needs of its business, which Taxpayer denies, such excess was not accumulated by Taxpayer for the purpose of avoiding the income tax with respect to its shareholders. Taxpayer was not, therefore, formed or availed of for the purpose of avoiding the income tax with respect to its shareholders or the

shareholders of any other corporation by permitting its earnings and profits to accumulate instead of being divided and distributed within the meaning of Int. Rev. Code §532(a).

(4) Under any of the alternative contentions stated above, Taxpayer is not subject to an accumulated earnings tax liability under Int. Rev. Code §531 for the taxable year in question. Accordingly, the accumulated earnings tax deficiency assessed against and paid by Taxpayer constitutes an overpayment for which Taxpayer is entitled to a refund.

Exhibit B

Form 843 (Rev. Nov 1968) Department of the Treasury Internal Revenue Service

AMENDED **Claim** FOR REFUND

Director's Stamp (Date received)

The Internal Revenue Service will indicate on the block below the kind of claim filed, and fill in, where required.

- ☐ Refund of Taxes Illegally, Erroneously, or Excessively Collected.
- ☐ Refund of Amount Paid for Stamps Unused, or Used in Error or Excess.
- ☐ Abatement of Tax Assessed (not applicable to income, estate or gift taxes).

Please Type or Print Plainly

Name of taxpayer or purchaser of stamps
IVAN ALLEN COMPANY

Number and street
P. O. Box 1712

City or town, State, and ZIP code
Atlanta, Georgia 30301

Fill in applicable items—Use attachments if necessary

a. Your social security number | Wife's number, if joint return | b. Employer identification number (if any) 58-0136820

c. Internal Revenue Service office where return (if any) was filed
Dist. Dir. Georgia

d. Name and address shown on return, if different from above
same

e. Period—if for tax reported on annual basis, prepare separate form for each taxable year
From July 1, 19 64 to June 30, 19 65

f. Kind of tax
Income

g. Amount of assessment
$ 252,127.62

Dates of payment $385.00: 10/15/64; $885.00: 12/15/64; $22,125.00: 4/15/65; $22,125.00:6/15/65; $60,000: 9/2/65; $54,310.95: 12/17/65; $91,788.67:6/1/70

h. Date stamps were purchased from Government

i. Amount to be refunded (if income tax, complete computation below)
$ 87,747.32*

k. The claimant believes that this claim should be allowed for the following reasons:

See Attached Statement

BEST COPY AVAILABLE

COMPUTATION OF INCOME TAX REFUND	Income Tax
1 Tax withheld	46,020.00
2 Estimated tax paid	114,318.95
3 Tax paid with original return	91,788.67
4 Any additional income tax paid	
5 Total tax paid (add lines 1–4)	252,127.62
6 Less: Your computation of correct tax	164,380.30
7 Amount of overpayment	87,747.32*
8 Amount previously refunded	-0-
9 Net overpayment (enter in item i above)	87,747.32*

Under penalties of perjury, I declare that I have examined this claim, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete.

Signed .....

Dated ....., 19.....

SEE INSTRUCTIONS ON REVERSE Form 843 (Rev. Nov. 1968)

*Plus assessed interest, with interest thereon as provided by law, or such greater amount as may be legally refundable.

STATEMENT AMENDING IVAN ALLEN COMPANY'S CLAIM FOR REFUND OF INCOME AND ACCUMULATED EARNINGS TAXES PAID FOR THE TAXABLE YEAR 7/1/64-6/30/65

On October 19, 1970, Ivan Allen Company (hereinafter referred to as "Taxpayer") filed a Claim For Refund ("Claim") of income and accumulated earnings taxes paid for its taxable year 1965. This statement is filed to amend Taxpayer's previously filed Claim as follows:

(1) The Form 843 previously filed by Taxpayer is hereby amended in accordance with the Form 843 attached hereto and styled "Amended Claim for Refund."

(2) The "STATEMENT ATTACHED TO AND FORMING A PART OF THE CLAIM OF IVAN ALLEN COMPANY FOR REFUND OF INCOME AND ACCUMULATED EARNINGS TAXES PAID FOR THE TAXABLE YEAR 1965" is hereby amended as follows:

(a) PAGE 4, SECOND FULL PARAGRAPH, which reads:

> "Taxpayer has paid the deficiency. This claim is filed for refund of the deficiency so paid, with interest thereon as provided by law, or such greater amount as may be legally refundable."

is hereby amended to read as follows (changes italicized):

> "Taxpayer has paid the deficiency *with interest thereon.* This claim is filed for the refund of the deficiency *and interest* so paid, with interest thereon as provided by law, or such greater amount as may be legally refundable."

(b) PAGE 4, CONTENTION (2) is hereby amended to read as follows (changes italicized):

> "(2) Under the contention stated above, the amount which Taxpayer paid to Mr. Allen, Sr. was properly deducted by taxpayer under Int. Rev. Code §162(a). Accordingly, the deficiency *and interest thereon* assessed against and paid by Taxpayer constitutes an overpayment for which Taxpayer is entitled to a refund."

(c) PAGE 7, THIRD PARAGRAPH, which reads:

> "Taxpayer has paid the deficiency. This claim is filed for the refund of the deficiency so paid, with interest thereon as provided by law, or such greater amount as may be legally refundable."

is hereby amended to read as follows (changes italicized):

> "Taxpayer has paid the deficiency *with interest thereon.* This claim is filed for the refund of the deficiency *and interest* so paid, with interest thereon as provided by law, or such greater amount as may be legally refundable."

(d) PAGE 8, CONTENTION (2) is hereby amended to read as follows (changes italicized):

> "(2) Under the contention stated above, the amount which Taxpayer paid to Mr. Allen, Jr. was properly deducted by Taxpayer under Int. Rev. Code §162(a). Accordingly, the deficiency *and interest thereon* assessed against

and paid by Taxpayer constitutes an overpayment for which Taxpayer is entitled to a refund.

(e) PAGE 10, SECOND PARAGRAPH, which reads:

"For a number of years, including the taxable year in question, Taxpayer has held certain marketable securities. Substantially all of these securities, however, were of corporations engaged in businesses related to that of Taxpayer. Moreover, since most of the securities had greatly appreciated in value, Taxpayer would have had to incur a substantial capital gains tax to convert them into cash. For these reasons, Taxpayer's management viewed the securities as business investments which were not available either for use in meeting Taxpayer's reasonable business needs or for distribution to its shareholders. However, even if the cost of Taxpayer's marketable securities are included in the computation of Taxpayer's net liquid assets, the cost of one of Taxpayer's operating cycles for the taxable year in question was still in excess of its net liquid assets determined as of the end of the taxable year."

is hereby amended to read as follows (changes italicized):

"For a number of years, including the taxable year in question, Taxpayer has held certain marketable securities. Substantially all of these securities, however, were of corporations engaged in businesses related to that of Taxpayer. Moreover, since most of the securities

had greatly appreciated in value, Taxpayer would have had to incur a substantial capital gains tax to convert them into cash. For these reasons, Taxpayer's management *did not view* the securities *as a part of Taxpayer's net liquid assets. Rather, the securities were viewed as long-term* business investments which were *neither* available for use in meeting Taxpayer's reasonable business needs *nor generally available* for distribution to its shareholders. However, even if the cost of Taxpayer's marketable securities are included in the computation of Taxpayer's net liquid assets, the cost of one of Taxpayer's operating cycles for the taxable year in question was still in excess of its net liquid assets determined as of the end of the taxable year."

(f) PAGE 11, FOURTH PARAGRAPH, which reads:

"Taxpayer has paid the deficiency. This claim is filed for refund of the deficiency with interest thereon as provided by law, or such greater amount as may be legally refundable."

is hereby amended to read as follows (changes italicized):

"Taxpayer has paid the deficiency *with interest thereon. The deficiency was paid within ten days of the receipt of notice and demand issued in connection therewith.* This claim is filed for the refund of the deficiency *and interest so paid* with interest thereon as provided by law, or such greater amount as may be legally refundable."

(g) PAGE 11, CONTENTION (1), FIRST SENTENCE is hereby amended to read as follows (changes italicized):

"(1) The marketable securities which Taxpayer held and which had substantially appreciated in value were *neither* available for use in meeting Taxpayer's reasonable business needs *nor generally available* for distribution to its shareholders."

(h) PAGE 14, CONTENTION (4), is hereby amended to read as follows (changes italicized):

"(4) Under any of the alternative contentions stated above, Taxpayer is not subject to an accumulated earnings tax liability under Int. Rev. Code §531 for the taxable year in question. Accordingly, the accumulated earnings tax deficiency *and interest thereon* assessed against and paid by Taxpayer constitutes an overpayment for which Taxpayer is entitled to a refund."

(i) PAGE 14 is hereby amended to add the following contentions (5), (6) and (7) with respect to the interest paid by Taxpayer on the accumulated earnings tax assessed against it:

"(5) The accumulated earnings tax imposed by Int. Rev. Code §531 is not a "tax" within the meaning of Int. Rev. Code §6601(a). Rather, it is either an "assessable penalty, additional amount or addition to the tax" within the meaning of Int. Rev. Code §6601 (f) (3). Interest on such a penalty, additional amount, or addition to the tax can be imposed only if it is not paid within ten days from the

date of notice and demand. Taxpayer paid the accumulated earnings tax deficiency assessed against it within ten days of the receipt of notice and demand. Accordingly, even if an accumulated earnings tax was properly assessed against Taxpayer, which Taxpayer denies, Taxpayer is not liable for any interest on such tax."

"(6) Even if the accumulated earnings tax is a 'tax' within the meaning of Int. Rev. Code §6601(a), which Taxpayer denies, by virtue of Int. Rev. Code §6155, the 'last date prescribed for payment' of such tax under Int. Rev. Code §6601(a) is the date of notice and demand. Interest can therefore be imposed on an accumulated earnings tax deficiency only from the date of notice and demand to the date of payment, unless payment is made within ten days of notice and demand in which case Int. Rev. Code §6601 (f) (4) precludes the imposition of any interest. Taxpayer paid the accumulated earnings tax assessed against it within ten days of the receipt of notice and demand. Consequently, even if an accumulated earnings tax was properly assessed against Taxpayer, which Taxpayer denies, Taxpayer is not liable for any interest on such tax."

"(7) Under either of the alternative contentions (5) or (6) stated above, Taxpayer is not liable for any interest on the accumulated earnings tax assessed against it for the taxable year in question. Accordingly, even if

an accumulated earnings tax was properly assessed against Taxpayer, which Taxpayer denies, the interest assessed against and paid by Taxpayer with respect to such tax constitutes an overpayment for which Taxpayer is entitled to a refund.

Exhibit C

[illegible] CLAIM

[illegible] FILE YOUR APPROPRIATE DISTRICT DIRECTOR WHERE ASSESSMENT WAS MADE OR TAX PAID

[illegible]

[ ] To Recover Taxes Illegally, Erroneously, or Excessively Collected.

[ ] Refund of Amount Paid for Stamps Unused, or Used in Error or Excess.

[ ] Abatement of Tax Assessed (not applicable to estate, gift, or income taxes).

PLEASE TYPE OR PRINT PLAINLY

Name of taxpayer, or person [illegible] return

IVAN Allen COMPANY

Number and street

P.O. Box 1712

City, town, State, Postal ZIP Code

Atlanta, Georgia 30301

Fill in applicable items—Attach additional sheets if space is not sufficient

a. Your social security number | Wife's number, if joint return | b. If an employer, enter employer identification number

58-0136820

c. District in which return (if any) was filed

Dis. Dir. Georgia

d. Name and address shown on return, if different from above

same

e. Period—if for tax reported on annual basis, prepare separate form for each taxable year

from July 1, 19 65, to June 30 19 66

f. Kind of tax

Income

g. Amount of assessment

$ 325,621.09

Dates of payment $3,200:12/15/65; $15,800.20:3/15/66; $15,799.80:6/9/66; $100,102.50:9/15/66; $100,102.45:12/16/66

h. Date stamps were purchased from Government

i. Amount to be refunded (If income tax, complete computation below)

$ 81,520.80

j. Amount of gift $90,616.14:6/1/70

$

k. The [illegible] believes that this [illegible] should be allowed for the following reasons:

See Attached Statement

BEST COPY AVAILABLE

COMPUTATION OF INCOME TAX REFUND	Income Tax
1. Tax withheld	
2. Estimated tax paid	34,800.00
3. Tax paid with original return	200,204.95
4. Any additional income tax paid	90,616.14
5. Total tax paid (Add lines 1-4)	325,621.09
6. Less: Your computation of correct tax	244,100.29
7. Amount of overpayment	81,520.80*
8. Amount previously refunded	-0-
9. Net overpayment (Enter in item i above)	81,520.80*

Under penalties of perjury, I declare that this claim, including any accompanying schedules and statements, has been examined by me and to the best of my knowledge and belief it is true and correct.

Signed .....

Dated ....., 19.....

SEE INSTRUCTIONS ON REVERSE

FORM 843 (Rev. 7-65)

*Or such greater amount as may be legally refundable.

STATEMENT ATTACHED TO AND FORMING A PART OF THE CLAIM OF IVAN ALLEN COMPANY FOR REFUND OF INCOME AND ACCUMULATED EARNINGS TAXES PAID FOR THE TAXABLE YEAR 1966

I. *Salary Paid by Taxpayer to Ivan Allen, Sr.*

A. *Statement of Facts*

During the taxable year in question and during all the years of its existence, Ivan Allen Company (hereinafter referred to as "Taxpayer"), was engaged in the office supply business.

Taxpayer was founded in 1899 by Mr. Ivan Allen, Sr. and Mr. J. W. Fielder. At that time, the office supply business was unique, and Ivan Allen, Sr. may well have been its originator. He was undoubtedly the first in the southeast to visualize the idea of a department store of office equipment.

The business prospered in the early 1900's, and in 1920, Mr. Allen, Sr. was elected President of Taxpayer. In 1938 he became Chairman of Taxpayer's Board of Directors and served in this position until his death.

During a substantial portion of the period in which he served Taxpayer as President and Chairman of its Board of Directors, Mr. Allen, Sr. had the primary responsibility for the management and supervision of Taxpayer's business and was undoubtedly the major factor in its success and growth. Moreover, Mr. Allen, Sr. was responsible for a number of innovations in the office supply business, all of which contributed to Taxpayer's success. He originated an inventory control plan, which for years has been the most widely used plan in the business. With minor improvements, both the standard accounting forms and cost of doing business forms which Mr. Allen, Sr.

developed are still being used. He developed the quintuplet charge and billing system whereby the invoice, charge, delivery ticket, statistical record and salesman's slip are all made in one operation. Finally, Mr. Allen, Sr. was the first to capitalize on the use of "visual education" in the business. Indeed, as early as 1923, he suggested using films to demonstrate the various manufacturing processes and facilities connected with the stationer's industry.

Mr. Allen, Sr. was not only a successful businessman but also took an active part in numerous civic activities. He served as President of the Atlanta Chamber of Commerce, as President of the Southeastern Fair Association and was the first President of the Atlanta Convention Bureau. He served as a member of a small committee which raised the first substantial funds for the Atlanta area Boy Scouts and for many years served on the Executive Committee of the Council of Boy Scouts. Mr. Allen, Sr. was one of the original members of the Agriculture and Industrial Development Board of Georgia. He served as Chairman of the Forward Atlanta Commission, of the Fulton County Department of Public Welfare, and of a Committee which raised funds to reestablish Oglethorpe University. Finally, Mr. Allen, Sr.'s close relationship with President Franklin D. Roosevelt led to his appointment as Chairman of the Federal Home Loan Bank in the southeast and as Chairman of the Franklin D. Roosevelt Warm Springs Memorial Commission.

Thus, while Mr. Allen, Sr. was implementing the many innovations in the office supply business which he had developed, he was also engaged in various civic activities which drew attention to and created respect for both Taxpayer and Mr. Allen, Sr. It was this combination of Mr. Allen, Sr.'s business acumen and his various civic activities which led to Taxpayer's growth into a highly successful company.

Notwithstanding Mr. Allen, Sr.'s role in Taxpayer's success, his salary was always extremely modest. Indeed, throughout his years of service to Taxpayer, Mr. Allen, Sr. was paid a salary which was always less than Taxpayer's leading salesman, and frequently less than several of Taxpayer's salesmen.

In 1964, Mr. Allen, Sr. suffered a stroke which curtailed his activities with Taxpayer. At that time, he had served Taxpayer for more than 64 years, always at a very modest salary. Even after his sickness, however, Mr. Allen, Sr. continued to serve Taxpayer in a consulting capacity. In consideration of his services as a consultant and for the many years of service in which he was the major factor in Taxpayer's development, Taxpayer continued to pay him the very modest annual salary of $12,525.16.

Taxpayer deducted the amount of the salary which it paid to Mr. Allen, Sr. as an ordinary and necessary business expense for its taxable year 1966. The Commissioner determined, however, that the amount paid to Mr. Allen, Sr. constituted unreasonable compensation and that the payment should not therefore have been deducted. Accordingly, the Commissioner assessed a deficiency against Taxpayer for its taxable year 1966.

Taxpayer has paid the deficiency. This claim is filed for the refund of the deficiency so paid, with interest thereon as provided by law, or, such greater amount as may be legally refundable.

B. *Taxpayer's Contentions*

(1) The amount which Taxpayer paid to Mr. Ivan Allen, Sr. constituted a reasonable salary for both past and present personal services actually rendered to Taxpayer within the meaning of Int. Rev. Code §162(a)(1).

The amount which Taxpayer paid to Mr. Allen, Sr. was, therefore, an ordinary and necessary business expense within the meaning of Int. Rev. Code §162(a).

(2) Under the contention stated above, the amount which Taxpayer paid to Mr. Allen, Sr. was properly deducted by Taxpayer under Int. Rev. Code §162(a). Accordingly, the deficiency assessed against and paid by Taxpayer constitutes an overpayment for which Taxpayer is entitled to a refund.

II. *Salary Paid by Taxpayer to Ivan Allen, Jr.*

A. *Statement of Facts*

Ivan Allen, Jr. was employed by Taxpayer in 1933. In 1938 he became Secretary-Treasurer of Taxpayer. In 1946 he was elected President of Taxpayer and in 1957 became Vice Chairman of Taxpayer's Board of Directors.

In 1962, Mr. Allen, Jr. was elected Mayor of the City of Atlanta and served in this capacity during the taxable year in question. Although his duties as Mayor limited the time which Mr. Allen, Jr. was able to spend on Taxpayer's routine matters, he continued to serve as Taxpayer's chief policy maker. For example, Mr. Allen, Jr. continued to receive daily communications with respect to the business problems confronting Taxpayer and often made daily responses. He continued to review all internal financial reports, including inventory and sales data, and was in frequent consultation with Taxpayer's officers with respect to merchandising lines, sales, personnel matters, inventory, accounting, and market extension. Mr. Allen, Jr. continued to determine both Taxpayer's sales policies and the character of its advertising and promotional operations. He also continued his primary decision making role with respect to Taxpayer's major expenditures, including not only capital expenditures but also contributions

to the Ivan Allen Company Foundation and to Taxpayer's profit sharing plan. In short, Taxpayer made no policy decision of any significance during the taxable year in question without first obtaining the advice and approval of Mr. Allen, Jr.

Even prior to becoming Mayor of Atlanta, Mr. Allen, Jr., like his father, contributed to Taxpayer's success by spending at least one-half of his working time engaged in civic and outside business activities. Nevertheless, Taxpayer's success during these years clearly attest to Mr. Allen, Jr.'s ability to operate Taxpayer while spending a substantial portion of his time engaged in activities other than the management and supervision of Taxpayer's affairs.

In 1948, Taxpayer paid Mr. Allen, Jr. a very modest salary of $12,000. As his responsibility and value to Taxpayer grew, Mr. Allen, Jr.'s salary was increased to $30,000. When Mr. Allen, Jr. became Mayor of Atlanta, however, Taxpayer recognized that the amount of time that he could spend on its affairs would be curtailed. Accordingly, beginning in 1962 and including the taxable year in question, Taxpayer reduced Mr. Allen's salary to $15,025.08.

During the taxable year 1966, Taxpayer paid its president, Mr. W. H. Glenn, a salary of $34,000, approximately double that of Mr. Allen, Jr. In the same year, ten of Taxpayer's salesmen received salaries greater than that of Mr. Allen, Jr.

Taxpayer deducted the amount of the salary which it paid to Mr. Allen, Jr. as an ordinary and necessary business expense for its taxable year 1966. The Commissioner determined, however, that the amount paid to Mr. Allen, Jr. constituted unreasonable compensation and that the payment was not therefore deductible. Accordingly,

the Commissioner assessed a deficiency against Taxpayer for its taxable year 1966.

Taxpayer has paid the deficiency. This claim is filed for the refund of the deficiency so paid, with interest thereon as provided by law, or such greater amount as may be legally refundable.

B. *Taxpayer's Contentions*

(1) The amount which Taxpayer paid to Mr. Allen, Jr. constituted a reasonable salary for personal services actually rendered to Taxpayer within the meaning of Int. Rev. Code §162(a)(1). The amount which Taxpayer paid to Mr. Allen, Jr. was, therefore, an ordinary and necessary business expense within the meaning of Int. Rev. Code §162(a).

(2) Under the contention stated above, the amount which Taxpayer paid to Mr. Allen, Jr. was properly deducted by Taxpayer under Int. Rev. Code §162(a). Accordingly, the deficiency assessed against and paid by Taxpayer constitutes an overpayment for which Taxpayer is entitled to a refund.

III. *Accumulated Earnings Tax*

A. *Statement of Facts*

Taxpayer's shareholders as of June 30, 1966 were as follows:

	No. of Shares
Allen, Beaumont	1120
Allen, Hugh Inman	3019
Allen, Irene Beaumont	2615
Allen, Ivan Sr.	6525
Allen, Ivan Jr.	5158

Allen, Ivan Jr. Trustee U/W Charles M. Marshall	11145
Allen, Ivan III	2731
Allen, Ivan IV	179
Allen, Louise R.	2442
Allen, Margaret Poer	131
Ball, Jack T.	23
Brumbelow, Morris	11
Carnes, John	892
Dickerson, Elmer	346
Estes, Robert S.	46
Floyd, W. F. Jr.	683
Glenn, W. H.	2772
Hampton, James F.	28
Harris, Andrew D.	2
Harris, Grady W.	2
Harris, W. D.	548
Jones, Hayden C. Jr.	663
Lanier, D. B.	115
Layton, Estate of Charles R.	86
Murphy, J. H.	870
Ownby, O. G.	150
Ownby, O. G. Trustee for Roger Paul	11
Ownby, O. G. Trustee for Scott Alan	11
Patrick, James H.	28
Pettes, Thompson P.	28
Richardson, Walter	23
Snellings, Walter Arnold	25
Tebow, D. L.	231
Williams, J. C.	577
Wilson, S. W.	86
Winslow, T. E.	184
Total	43506

As an operating company, Taxpayer has a readily ascertainable operating cycle and a need for sufficient working capital to operate its business through at least one such cycle. Since Taxpayer's net liquid assets determined as of the end of the taxable year in question which were available for use in meeting its working capital requirements were less than its needs, Taxpayer retained a portion of its earnings and profits for the taxable year.

For a number of years, including the taxable year in question, Taxpayer has held certain marketable securities. Substantially all of these securities, however, were of corporations engaged in businesses related to that of Taxpayer. Moreover, since most of the securities had greatly appreciated in value, Taxpayer would have had to incur a substantial capital gains tax to convert them into cash. For these reasons, Taxpayer's management viewed the securities as business investments which were not available either for use in meeting Taxpayer's reasonable business needs or for distribution to its shareholders. However, even if the cost of Taxpayer's marketable securities are included in the computation of Taxpayer's net liquid assets, the cost of one of Taxpayer's operating cycles for the taxable year in question was still in excess of its net liquid assets determined as of the end of the taxable year.

Taxpayer does not have a history of making loans to its shareholders and possesses a record of regular and substantial dividends. Moreover, the income tax consequences to Taxpayer's shareholders have never been considered in determining its dividend policy.

Taxpayer's ratio of current assets to current liabilities for the taxable year in question was extremely small. Indeed, only a very insignificant amount of Taxpayer's earnings and profits has ever been invested in assets other

than assets directly related to the operation of Taxpayer's business.

Nevertheless, the Commissioner determined that Taxpayer had accumulated earnings beyond the reasonable needs of its business and that this accumulation was for the purpose of avoiding the income tax with respect to its shareholders. Accordingly, the Commissioner assessed an accumulated earnings tax deficiency against Taxpayer for its taxable year 1966.

Taxpayer has paid the deficiency. This claim is filed for the refund of the deficiency with interest thereon as provided by law, or such greater amount as may be legally refundable.

B. *Taxpayer's Contentions*

(1) The marketable securities which Taxpayer held and which had substantially appreciated in value were not available either for use in meeting Taxpayer's reasonable business needs or for distribution to its shareholders. For this reason, the marketable securities are excludable in computing Taxpayer's net liquid assets available for use in its business. The cost of one of Taxpayer's operating cycles for the taxable year in question thus exceeded its net liquid assets available for use in its business determined as of the end of the taxable year. Consequently, Taxpayer's earnings and profits for the taxable year in question which it retained were not in excess of and were retained by Taxpayer for the reasonable needs of its business, including the reasonably anticipated needs of its business, within the meaning of Int. Rev. Code §535(c). Accordingly, in computing its accumulated taxable income under Int. Rev. Code §535, Taxpayer is entitled to an accumulated earnings credit in an amount at least equal to the amount of its retained earnings and profits for

the taxable year in question (or in such lesser amount of its earning and profits for the taxable year in question as may be determined to have been retained by Taxpayer for the reasonable needs of its business, including the reasonably anticipated needs of its business.)

(2) Even if the marketable securities held by Taxpayer are includable in computing Taxpayer's net liquid assets available for use in its business, which Taxpayer denies, the cost of one of Taxpayer's operating cycles for the taxable year in question still exceeded its net liquid assets determined as of the end of the taxable year. Moreover, if Taxpayer had distributed in its taxable year 1965 an amount equal to its accumulated taxable income for that year and had utilized its marketable securities to meet its working capital requirements, as the Commissioner contends it should have and Taxpayer denies, the cost of one of Taxpayer's operating cycles would have exceeded its net liquid assets determined as of the end of the taxable year in question by an even greater amount. Consequently, Taxpayer's earnings and profits for the taxable year in question which it retained were not in excess of and were retained by Taxpayer for the reasonable needs of its business, including the reasonably anticipated needs of its business, within the meaning of Int. Rev. Code §535 (c). Accordingly, in computing its accumulated taxable income under Int. Rev. Code §535, Taxpayer is entitled to an accumulated earnings credit in an amount at least equal to the amount of its retained earning and profits for the taxable year in question (or in such lesser amount of its earnings and profits for the taxable year in question as may be determined to have been retained by Taxpayer for the reasonable needs of its business, including the reasonably anticipated needs of its business.)

(3) Even if the earnings and profits which Taxpayer retained exceeded the reasonable needs of its business, including the reasonably anticipated needs of its business, which Taxpayer denies, such excess was not accumulated by Taxpayer for the purpose of avoiding the income tax with respect to its shareholders. Taxpayer was not, therefore, formed or availed of for the purpose of avoiding the income tax with respect to its shareholders or the shareholders of any other corporation by permitting its earnings and profits to accumulate instead of being divided and distributed within the meaning of Int. Rev. Code §532(a).

(4) Under any of the alternative contentions stated above, Taxpayer is not subject to an accumulated earnings tax liability under Int. Rev. Code §531 for the taxable year in question. Accordingly, the accumulated earnings tax deficiency assessed against and paid by Taxpayer constitutes an overpayment for which Taxpayer is entitled to refund.

Exhibit D

Form 843 (Rev. Nov. 1960)
Department of the Treasury
Internal Revenue Service

AMENDED Claim FOR REFUND

Director's Stamp (Date received)

The Internal Revenue Service will indicate in the block below the kind of claim filed, and fill in, where required.

- ☐ Refund of Taxes Illegally, Erroneously, or Excessively Collected.
- ☐ Refund of Amount Paid for Stamps Unused, or Used in Error or Excess.
- ☐ Abatement of Tax Assessed (not applicable to income, estate or gift taxes).

Please Type or Print Plainly

Name of taxpayer or purchaser of stamps
IVAN ALLEN COMPANY

Number and street
P. O. Box 1712

City or town, State, and ZIP code
Atlanta, Georgia 30301

Fill in applicable items—Use attachments if necessary

a. Your social security number | Wife's number, if joint return | b. Employer identification number (if any)
58-0136820

c. Internal Revenue Service office where return (if any) was filed
Dist. Dir. Georgia

d. Name and address shown on return, if different from above
Same

e. Period—if for tax reported on annual basis, prepare separate form for each taxable year
From July 1, 19 65 to June 30, 19 66

f. Kind of tax
Income

g. Amount of assessment
$ 325,621.09

Dates of payment
$3,200.12/15/65; $15,800.20;3/15/66; $19,799.80;6/9/66; $100,102.50;9/15/66; $100,102.45; 12/8/66; $90,616.14; 6/1/70.

h. Date stamps were purchased from Government

i. Amount to be refunded (if income tax, complete computation below)
$ 81,520.80*

j. Amount to be abated (not applicable to income, estate, or gift taxes)
$

k. The claimant believes that this claim should be allowed for the following reasons:

See Attached Statement

BEST COPY AVAILABLE

COMPUTATION OF INCOME TAX REFUND	Income Tax
1 Tax withheld	34,800.00
2 Estimated tax paid	200,204.95
3 Tax paid with original return	90,616.14
4 Any additional income tax paid	325,621.09
5 Total tax paid (add lines 1–4)	244,100.29
6 Less: Your computation of correct tax	81,520.80*
7 Amount of overpayment	-0-
8 Amount previously refunded	81,520.80*
9 Net overpayment (enter in item i above)	

Under penalties of perjury, I declare that I have examined this claim, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete.

Signed .....

Dated ....., 19....

SEE INSTRUCTIONS ON REVERSE

Form 843 (Rev. 11-60)

*plus assessed interest, with interest thereon as provided by law, or such greater amount as may be legally refundable.

STATEMENT AMENDING IVAN ALLEN COMPANY'S CLAIM FOR REFUND OF INCOME AND ACCUMULATED EARNINGS TAXES PAID FOR THE TAXABLE YEAR 7/1/65-6/30/66

On October 19, 1970, Ivan Allen Company (hereinafter referred to as "taxpayer") filed a Claim For Refund ("Claim") of income and accumulated earning taxes paid for its taxable year 1966. This statement is filed to amend Taxpayer's previously filed Claim as follows:

(1) The Form 843 previously filed by Taxpayer is hereby amended in accordance with the Form 843 attached hereto and styled "Amended Claim for Refund."

(2) The "STATEMENT ATTACHED TO AND FORMING A PART OF THE CLAIM OF IVAN ALLEN COMPANY FOR REFUND OF INCOME AND ACCUMULATED EARNINGS TAXES PAID FOR THE TAXABLE YEAR 1966" is hereby amended as follows:

(a) PAGE 4, SECOND FULL PARAGRAPH, which reads:

> "Taxpayer has paid the deficiency. This claim is filed for refund of the deficiency so paid, with interest thereon as provided by law, or such greater amount as may be legally refundable."

is hereby amended to read as follows (changes italicized):

> "Taxpayer has paid the deficiency *with interest thereon.* This claim is filed for the refund of the deficiency *and interest* so paid, with interest thereon as provided by law, or such greater amount as may be legally refundable."

(b) PAGE 4, CONTENTION (2) is hereby amended to read as follows (changes italicized):

> "(2) Under the contention stated above, the amount which Taxpayer paid to Mr. Allen, Sr. was properly deducted by Taxpayer under Int. Rev. Code §162(a). Accordingly, the deficiency *and interest thereon* assessed against and paid by Taxpayer constitutes an overpayment for which Taxpayer is entitled to a refund."

(c) PAGE 7, THIRD PARAGRAPH, which reads:

> "Taxpayer has paid the deficiency. This claim is filed for the refund of the deficiency so paid, with interest thereon as provided by law, or such greater amount as may be legally refundable."

is hereby amended to read as follows (changes italicized):

> "Taxpayer has paid the deficiency *with interest thereon.* This claim is filed for the refund of the deficiency *and interest* so paid, with interest thereon as provided by law, or such greater amount as may be legally refundable."

(d) PAGE 8, CONTENTION (2) is hereby amended to read as follows (changes italicized):

> "(2) Under the contention stated above, the amount which Taxpayer paid to Mr. Allen, Jr. was properly deducted by Taxpayer under Int. Rev. Code §162(a). Accordingly, the deficiency *and interest thereon* assessed against and paid by Taxpayer constitutes an overpayment for which Taxpayer is entitled to a refund.

(e) PAGE 10, SECOND PARAGRAPH, which reads:

> "For a number of years, including the taxable year in question, Taxpayer has held certain marketable securities. Substantially all of these securities, however, were of corporations engaged in businesses related to that of Taxpayer. Moreover, since most of the securities had greatly appreciated in value, Taxpayer would have had to incur a substantial capital gains tax to convert them into cash. For these reasons, Taxpayer's management viewed the securities as business investments which were not available either for use in meeting Taxpayer's reasonable business needs or for distribution to its shareholders. However, even if the cost of Taxpayer's marketable securities are included in the computation of Taxpayer's net liquid assets, the cost of one of Taxpayer's operating cycles for the taxable year in question was still in excess of its net liquid assets determined as of the end of the taxable year."

is hereby amended to read as follows (changes italicized):

> "For a number of years, including the taxable year in question, Taxpayer has held certain marketable securities. Substantially all of these securities, however, were of corporations engaged in businesses related to that of Taxpayer. Moreover, since most of the securities had greatly appreciated in value, Taxpayer would have had to incur a substantial capital gains tax to convert them into cash. For these reasons, Taxpayer's management *did not*

> *view* the securities *as a part of Taxpayer's net liquid assets. Rather, the securities were viewed as long-term* business investments which were *neither* available for use in meeting Taxpayer's reasonable business needs *nor generally available* for distribution to its shareholders. However, even if the cost of Taxpayer's marketable securities are included in the computation of Taxpayer's net liquid assets, the cost of one of Taxpayer's operating cycles for the taxable year in question was still in excess of its net liquid assets determined as of the end of the taxable year."

(f) PAGE 11, FOURTH PARAGRAPH, which reads:

> "Taxpayer has paid the deficiency. This claim is filed for refund of the deficiency with interest thereon as provided by law, or such greater amount as may be legally refundable."

is hereby amended to read as follows (changes italicized):

> "Taxpayer has paid the deficiency *with interest thereon. The deficiency was paid within ten days of the receipt of notice and demand issued in connection therewith.* This claim is filed for the refund of the deficiency *and interest so paid* with interest thereon as provided by law, or such greater amount as may be legally refundable."

(g) PAGE 11, CONTENTION (1), FIRST SENTENCE is hereby amended to read as follows (changes italicized):

"(1) The marketable securities which Taxpayer held and which had substantially appreciated in value were *neither* available for use in meeting Taxpayer's reasonable business needs *nor generally available* for distribution to its shareholders."

(h) PAGE 14, CONTENTION (4), is hereby amended to read as follows (changes italicized):

"(4) Under any of the alternative contentions stated above, Taxpayer is not subject to an accumulated earnings tax liability under Int. Rev. Code §531 for the taxable year in question. Accordingly, the accumulated earnings tax deficiency *and interest thereon* assessed against and paid by Taxpayer constitutes an overpayment for which Taxpayer is entitled to a refund."

(i) PAGE 14 is hereby amended to add the following contentions (5), (6) and (7) with respect to the interest paid by Taxpayer on the accumulated earnings tax assessed against it:

"(5) The accumulated earnings tax imposed by Int. Rev. Code §531 is not a 'tax' within the meaning of Int. Rev. Code §6601(a). Rather, it is either an 'assessable penalty, additional amount or addition to the tax' within the meaning of Int. Rev. Code §6601 (f)(3). Interest on such a penalty, additional amount, or addition to the tax can be imposed only if it is not paid within ten days from the date of notice and demand. Taxpayer paid the accumulated earnings tax deficiency assessed against it within ten days of

the receipt of notice and demand. Accordingly, even if an accumulated earnings tax was properly assessed against Taxpayer, which Taxpayer denies, Taxpayer is not liable for any interest on such tax."

"(6) Even if the accumulated earnings tax is a 'tax' within the meaning of Int. Rev. Code §6601(a), which Taxpayer denies, by virtue of Int. Rev. Code §6155, the 'last date prescribed for payment' of such tax under Int. Rev. Code §6601(a) is the date of notice and demand. Interest can therefore be imposed on an accumulated earnings tax deficiency only from the date of notice and demand to the date of payment, unless payment is made within ten days of notice and demand in which case Int. Rev. Code §6601(f)(4) precludes the imposition of any interest. Taxpayer paid the accumulated earnings tax assessed against it within ten days of the receipt of notice and demand. Consequently, even if an accumulated earnings tax was properly assessed against Taxpayer, which Taxpayer denies, Taxpayer is not liable for any interest on such tax."

"(7) Under either of the alternative contentions (5) or (6) stated above, Taxpayer is not liable for any interest on the accumulated earnings tax assessed against it for the taxable year in question. Accordingly, even if an accumulated earnings tax was properly assessed against Taxpayer, which Taxpayer denies, the interest assessed against and paid by Taxpayer with respect to such tax constitutes an overpayment for which Taxpayer is entitled to a refund.

IN THE
UNITED STATES DISTRICT COURT FOR THE
NORTHERN DISTRICT OF GEORGIA
ATLANTA DIVISION

(Title Omitted in Printing)

ANSWER

(Filed July 15, 1971)

The defendant, United States of America, by and through its attorney, for answer to the plaintiff's complaint herein, admits, denies and alleges as follows:

1.

Admits the allegations contained in paragraph 1, except denies that the internal revenue taxes sought to be recovered herein were erroneously and illegally assessed against and collected from the plaintiff.

2.

Admits the allegations contained in paragraph 2.

3.

Admits the allegations contained in paragraph 3, except denies that the taxes referred to therein were erroneously and illegally assessed against and collected from the taxpayer.

4.

Admits the allegations contained in paragraph 4.

5.

With respect to the allegations contained in paragraph 5, the defendant answers as follows:

Denies the allegations contained in the first sentence and alleges that upon audit of the taxpayer's returns for

the taxable years in question, the Secretary of the Treasury or his delegate determined that the alleged salaries which the taxpayer paid Mr. Ivan Allen, Sr., and Mr. Ivan Allen, Jr., were not ordinary and necessary business expenses of the taxpayer.

Admits the allegations contained in the second sentence.

6.

Denies the allegations contained in paragraph 6, except admits that the Secretary of the Treasury or his delegate assessed against the taxpayer, for the years referred to, additional income and accumulated earnings taxes, together with interest thereon, in at least the amounts set out in paragraph 6.

7.

Admits the allegations contained in paragraph 7.

8.

Admits the allegations contained in paragraph 8, except denies that no decision has been rendered on the said claims for refund, as amended, by the Secretary of the Treasury or his delegate.

9.

Admits the allegations contained in paragraph 9, except denies each and every allegation of fact and each and every contention set out in the claims for refund and amendments referred to in paragraph 9 unless otherwise specifically admitted herein.

10.

Denies the allegations contained in paragraph 10.

11.

Admits the allegations contained in paragraph 11, except denies that the taxes and interest referred to therein were erroneously and illegally assessed against and collected from the taxpayer.

12.

Denies the allegations contained in paragraph 12.

13.

Admits the allegations contained in paragraph 13, except denies that the additional income and accumulated earnings taxes and the interest thereon sought to be recovered herein were erroneously and illegally assessed against and collected from the taxpayer.

14.

Admits the allegations contained in paragraph 14.

WHEREFORE, the defendant prays for judgment in its favor, for dismissal of the plaintiff's complaint with prejudice, for costs and for such other and further relief as justice may require.

The defendant requests a trial by jury.

John W. Stokes, Jr.
United States Attorney
By: /s/ Stanley M. Baum
Assistant United States Attorney

(Certificate Omitted in Printing)

IN THE
UNITED STATES DISTRICT COURT FOR THE
NORTHERN DISTRICT OF GEORGIA
ATLANTA DIVISION

(Title Omitted in Printing)

STIPULATION

(Filed June 12, 1972)

The parties hereto through their respective counsel stipulate and agree as follows:

1. This is a civil action instituted by Ivan Allen Company (hereinafter referred to as the "taxpayer") against the United States (hereinafter referred to as the Government) for the recovery of $212,132.53 in federal income and accumulated earnings taxes, including interest thereon, paid for the fiscal years ended June 30, 1965 and June 30, 1966.

2. Both factual and legal issues are presented by the case. One of the legal issues (set out hereinbelow in paragraph 15) is such that its resolution may be dispositive of the taxpayer's claim for the refund of the accumulated earnings taxes involved. Therefore, such issue is hereby submitted to the Court for decision. Pending the Court's decision thereof, the remaining issues in the case may, subject to the discretion of the Court, be held in abeyance.

3. The taxpayer is a Georgia corporation engaged in the business of selling office furniture, equipment and such other supplies as are used in offices and places of business.

4. For its fiscal years ended June 30, 1965 and June 30, 1966, the taxpayer filed its federal income tax returns

with, and paid the tax shown as due thereon to, the District Director of Internal Revenue, Atlanta, Georgia. True copies of said returns are attached hereto as Exhibits A and B, respectively.

5. Following an examination of the taxpayer's federal income tax returns for the fiscal years ended June 30, 1965 and June 30, 1966, the Commissioner of Internal Revenue determined, among other things, that the taxpayer had permitted its undistributed earnings and profits for each of such years to accumulate beyond the reasonable and reasonably anticipated needs of its business and that one of the purposes of the accumulation for each such year was avoiding income tax with respect to its shareholders. Based upon such determination, $77,383.98 and $73,131.87 in accumulated earnings taxes, together with interest thereon, were assessed against and collected from the taxpayer for its fiscal years ended June 30, 1965, and June 30, 1966, respectively. Thereafter, and within the time provided by law, the taxpayer duly filed claims for refund of such accumulated earnings tax and interest. When the claims for refund were not allowed, the taxpayer instituted the instant action alleging that such accumulated earnings taxes and interest were erroneously and illegally assessed against and collected from it.

6. At the close of its fiscal years ended June 30, 1965 and June 30, 1966, the taxpayer owned listed and unlisted marketable securities the cost and fair market values (FMV) of which were as follows:

	FYE 6-30-65		FYE 6-30-66	
	Cost	FMV	Cost	FMV
40 shs. Arlington Development Corp. common stock (unlisted)	$ 1,000	$ 1,000	$ 1,000	$ 1,000
300 shs. C. & S. Capital Corp. common stock (listed)	1,650	788	1,650	825
$600 Commerce and Jackson County Development Corp. bond (unlisted)	600	600		
149 shs. Minnesota Mining & Mfg. Co. common stock (listed)	3,046	8,605		
165 shs. Southern Airways common stock (listed)	600	1,650		
11,140 shs. Xerox Corp. common stock (listed)	116,701	1,573,525		
10,090 shs. Xerox Corp. common stock (listed)			102,479	2,479,617
$30,600.00 Xerox Corp. convertible debentures (listed)	30,625	48,424	30,625	69,768
	$154,222	$1,634,592	$135,754	$2,551,210

7. The cost of converting the taxpayer's marketable securities into cash would have been the sum of a maximum of 6% of the fair market value of such securities (payable as a brokerage commission) and a maximum of 25% of such amount of the fair market value as exceeds the sum of the brokerage commission and the cost of the securities (payable as capital gains taxes).

8. For its fiscal year ended June 30, 1965, the taxpayer paid dividends to its stockholders as follows:

Cash	$48,945.30
870 shs. Xerox Corp. common stock (at cost)	6,564.34

9. For its fiscal year ended June 30, 1966, the taxpayer paid dividends to its stockholders as follows:

Cash	$50,267.49
10% stock dividend of Ivan Allen Company	

10. In determining whether the accumulated earnings taxes involved herein were erroneously and illegally assessed against and collected from the taxpayer, it is necessary to determine whether the taxpayer's undistributed "earnings and profits [were] permitted to accumulate beyond the reasonable [and reasonably anticipated] needs of the business," within the meaning of Section 533(a) of the Internal Revenue Code of 1954.

11. For the purposes of determining whether the taxpayer permitted its earnings and profits "to accumulate beyond the reasonable [and reasonably anticipated] needs of the business," within the meaning of Section 533(a) of the Internal Revenue Code of 1954, the parties agree that the taxpayer had reasonable business needs for operating capital equal to $1,198,309.00 and $1,455,222.00 at the close of its fiscal years ended June 30, 1965 and June 30, 1966, respectively.

12. The amounts of net liquid assets (current assets less current liabilities) owned by the taxpayer at the close of its fiscal years ended June 30, 1965 and June 30, 1966, were $1,198,309.00 and $1,455,222.00, respectively, if its marketable securities are taken into account at cost, and $2,235,029.00 and $3,152,009.00, respectively, if its marketable securities are taken into account at their fair market value less the cost of converting them into cash.

13. If, in determining the amount of the taxpayer's net liquid assets at the close of each of the suit years, for purposes of determining the applicability of Section 533(a) of the Internal Revenue Code of 1954, the taxpayer's marketable securities should properly be taken into account at cost, the taxpayer's undistributed earnings and profits were not permitted to accumulate beyond the reasonable and reasonably anticipated needs of the taxpayer's business.

14. If, in determining the amount of the taxpayer's net liquid assets at the close of each of the suit years, for purposes of determining the applicability of Section 533(a) of the Internal Revenue Code of 1954, the taxpayer's marketable securities should properly be taken into account at their fair market value (less the cost of converting them into cash), the taxpayer's undistributed earnings and profits for each of such years were permitted to accumulate beyond the reasonable and reasonably anticipated needs of the taxpayer's business.

15. Thus, the following legal question is presented for resolution by the Court:

> Whether, in determining the amount of the taxpayer's net liquid assets at the close of each of the suit years, for purposes of determining the applicability of Section 533(a) of the Internal Revenue Code of 1954, the taxpayer's marketable securities should properly be taken into account at their cost, as the taxpayer contends, or at their fair market value (less the cost of converting them into cash), as the Government contends.

16. In the event it is determined that the taxpayer permitted its undistributed earnings and profits to accumulate beyond the reasonable and reasonably anticipated needs of its business, a further factual issue relating to the

accumulated earnings tax involved in the case remains to be resolved, i.e. whether one of the purposes of such accumulations was avoiding income tax with respect to the taxpayer's shareholders. In the further proceeding, if any, to resolve said remaining factual issue, either party may, subject to pertinent objections, offer any evidence therein which is not inconsistent with the matters stipulated herein.

June 12, 1972 /s/ Kirk McAlpin
Date Counsel for Plaintiff

June 12, 1972 /s/ Jack D. Warren
Date Counsel for Defendant

Exhibit A

FORM 1120 U.S. CORPORATION INCOME TAX RETURN—1964 58-0247157051C

U.S. Treasury Department Internal Revenue Service

For calendar year 1964 or other taxable year beginning July 1, 1964, ending June 30, 1965

(PLEASE TYPE OR PRINT)

Check if this is a—
A. Sole proprietorship ☐ or partnership ☐ electing under sec. 1361 to be taxed as a corporation.
B. Consolidated return. ☐
C. Personal Holding Co. ☐
D. Business Code No. (see instructions) 5200

58-0136820
IVAN ALLEN CO PAINT 1965 DO 58 6
BOX 1712
ATLANTA GA 30301

E. Employer Identification No. 58-0136820
F. County in which located Fulton
G. Enter total assets from line 13 Sch. L (see instruction R) $3,717,835.18

IMPORTANT—All applicable lines and schedules must be filled in. If the lines on the schedules are not sufficient, see instruction Q.

GROSS INCOME

1. Gross receipts or gross sales ..... Less: Returns and allowances		6,501,259.76 / 4,510,571.01
2. Less: Cost of goods sold (Schedule A) and/or operations (attach schedule)		1,990,688.75
3. Gross profit		59,293.63
4. Dividends (Schedule C)		
5. Interest on obligations of the United States and U.S. instrumentalities		13,205.96
6. Other interest		159,325.76
7. Rents		
8. Royalties		1,657.04
9. Net gains (losses) from separate Schedule D		176,287.41
10. Other income (attach schedule)		2,400,458.55
11. TOTAL income, lines 3 through 10		

DEDUCTIONS

12. Compensation of officers (Schedule E)		156,309.16
13. Salaries and wages (not deducted elsewhere)		1,139,731.35
14. Repairs (do not include cost of improvements or capital expenditures)		8,255.60
15. Bad debts (from Schedule F if reserve method is used)		14,498.18
16. Rents		87,707.66
17. Taxes (attach schedule)		103,402.33
18. Interest		20,680.94
19. Contributions or gifts paid (attach schedule—see instructions for limitation)		20,602.38
20. Losses by fire, storm, shipwreck, or other casualty, or theft (attach schedule)		
21. Amortization (attach schedule)		64,395.22
22. Depreciation (Schedule G)		
23. Depletion (attach schedule)		89,316.18
24. Advertising		60,000.00
25. (a) Pension, profit-sharing, stock bonus, annuity plans (see instructions)		
(b) Other employee benefit plans (see instructions)		
26. Other deductions (attach schedule)		244,113.94
27. TOTAL deductions in lines 12 through 26		2,009,013.14
28. Taxable income before net operating loss deduction and special deductions (line 11 less line 27)		391,445.41
29. Less: (a) Net operating loss deduction (see instructions—attach schedule)		
(b) Special deductions (Schedule D)	50,399.59	50,399.59
30. Taxable income (line 28 less line 29)		341,045.82

TAX

31. TOTAL income tax (from line 10, Schedule J)		160,338.05
32. Credits: (a) Tax paid with Form 7004 application for extension (attach copy)	60,000.00	
(b) Payments and credits on 1964 declaration of estimated tax	45,020.00	
(c) Credit from regulated investment companies (attach Form 2439)		106,020.00
33. If tax (line 31) is larger than credits (line 32), the balance is TAX DUE. Enter balance here ⟶		54,318.05
34. If tax (line 31) is less than credits (line 32) ..... Enter the OVERPAYMENT here ⟶		
35. Enter amount of line 34 you want: Credited on 1965 estimated tax ..... Refunded		

RECEIVED
DEC 15 1965
DIRECTOR T.P. SER
ATLANTA
TELLER - #2

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete. If prepared by a person other than taxpayer, his declaration is based on all information of which he has any knowledge.

CORPORATE SEAL

12/13/65 Date — Signature of officer — President Title

GODFREY, LAWRENCE & NORTON
CERTIFIED PUBLIC ACCOUNTANTS

Preparer's address (and ZIP code) — Signature of preparer other than taxpayer

BEST COPY AVAILABLE

Form 1120 (1964) — ? to 2

Schedule A.—COST OF GOODS SOL (See instruction 2)
(Where inventories are an income-producing factor)

1. Inventory at beginning of year		516,537.81
2. Merchandise bought for manufacture or sale		3,267,572.21
3. Salaries and wages		422,781.81
4. Other costs per books (attach schedule)		772, 33.43
5. Total		5,079,785.26
6. Less: Inventory at end of year		569,214.25
7. Cost of goods sold (enter here and on line 2, page 1)		4,510,571.01

1. Was inventory valued—Cost ☐; lower of cost or market ☑; LIFO ☐; other ☐? If other, attach explanation.
2. Have write-downs been made to inventory? Yes ☒ No ☐. If "Yes," were the write-downs computed on the basis of:
   (a) ☐ Percentage reductions from parts of the inventory
   (b) ☒ Percentage reductions from the total inventory
   (c) ☐ Valuation of individual items.
   If "a" or "b" is checked, enter the percentage of write-downs ...0.... %. For "a," "b," or "c" enter the dollar amount of write-downs $ 71,124.31. (If not available, estimate and indicate that the figure is an estimate.)
3. Was the inventory verified by physical count during the year? Yes ☒ No ☐. If "No," attach explanation of how the closing inventory was determined.
4. Was there any substantial change in the manner of determining quantities, costs or valuations between the opening and closing inventories? Yes ☐ No ☒. If "Yes," attach explanation.

NOTE: If a direct answer cannot be given to a question, attach explanation.

Schedule C.—INCOME FROM DIVIDENDS

1. Name of declaring corporation	2. Domestic corporations taxable under chapter 1, Internal Revenue Code	3. Certain preferred stock of public utilities taxable under chapter 1, Internal Revenue Code	4. Foreign corporations	5. Other corporations
Totals				
Total of columns 2, 3, 4, and 5				
Add amount includible by shareholder of controlled foreign corporation (attach statement)				
Total (enter here and on line 4, page 1) ..... Schedule				59,293 63

Schedule D.—Separate Schedule D (Form 1120) should be used in reporting sales or exchanges of property. (See instruction 9)

Schedule E.—COMPENSATION OF OFFICERS (See page 5 of instructions)

1. Name and address of officer	2. Official title	3. Time devoted to business	Percent of corporation stock owned: 4. Common	5. Preferred	6. Amount of compensation	7. Expense account allowances
Total compensation of officers (enter here and on line 12, page 1)						

Schedule F.—BAD DEBTS—RESERVE METHOD (See instruction 15)

1. Taxable year	2. Trade notes and accounts receivable outstanding at end of year	3. Sales on account	4. Gross amount added to reserve	5. Amount charged against reserve	6. Reserve for bad debts at end of year
1961					
1962					
1963					
1964					

NOTE: Securities which are capital assets and which became worthless within the taxable year should be reported in separate Schedule D

Schedule G.—DEPRECIATION (See instruction 22)

This schedule is designed for taxpayers using the alternative guidelines and administrative procedures described in Revenue Procedure 62-21 as well as for those taxpayers who wish to continue using procedures authorized prior to the Revenue Procedure. Where double headings appear use the first heading for the new procedure and the second heading for the older procedure.

1. Group and guideline class —OR— Description of property	2. Cost or other basis at beginning of year —OR— Cost or other basis	3. Asset additions in year (amount) —OR— Date acquired	4. Asset retirements in year (amount) (applicable only to Rev. Proc. 62-21)	5. Depreciation allowed or allowable in prior years	6. Method of computing depreciation	7. Class life —OR— Rate (%) or life	8. Depreciation for this year
1. Total additional first year depreciation (do not include in items below) →							2,000.00
Schedule							81,970.80
2. Totals	1,807,565.20						83,970.80
3. Less: Amount of depreciation claimed in Schedule A and elsewhere on return							19,587.68
4. Balance—Enter here and on line 22, page 1							64,383.22
5. Cost or other basis of fully depreciated assets still in use							

FORM 7004
Rev. Feb. 1959

U.S. TREASURY DEPARTMENT—INTERNAL REVENUE SERVICE

APPLICATION FOR AUTOMATIC EXTENSION OF TIME TO FILE U.S. CORPORATION INCOME TAX RETURN (SEC. 6081(b), INTERNAL REVENUE CODE OF 1954)

(See Instructions on reverse side)

For taxable year beginning July 1, 1964, and ending June 30, 1965

If an extension of time is necessary, file this form with the District Director of Internal Revenue on or before the 15th day of the third month following the close of the taxable year.

PLEASE TYPE OR PRINT PLAINLY

Name of corporation: IVAN ALLEN COMPANY

Number and street: BOX 1712

City or town, postal zone number, State: ATLANTA, GEORGIA 30301

DO NOT WRITE IN SPACE BELOW

Serial No.

Application is hereby made for an automatic extension of three months for filing the completed return of the corporation named herein in accordance with the provisions of section 6081(b) of the Internal Revenue Code of 1954.

Reason extension is applied for: F.Y.E. 6-30-63 and 6-30-64 are being examined by I.R.S. adjustments may be made affecting F.Y.E. 6-30-65.

A remittance of an amount not less than would be required as the first installment of the tax tentatively determined to be due for the taxable year shown above accompanies this application.

1. Tentative amount of tax for the taxable year	$ 166,020.00
2. Less: Payments made on declaration of estimated tax	$ 46,020.00
3. Balance due	$ 120,000.00
4. Amount of remittance	$ 60,000.00

SIGNATURE AND VERIFICATION

I declare under the penalties of perjury that I have been authorized by the above-named corporation to make this application and that, to the best of my knowledge and belief the statements made herein are true and correct.

(Signature—see instructions) (Title, if an officer of the corporation) (Date)

I declare under the penalties of perjury that I am currently enrolled to practice before the Treasury Department and have been authorized by the above-named corporation to make this application; and that to the best of my knowledge and belief the statements made herein are true and correct.

(Date) (Signature of enrolled representative)

(Address) (Name of firm, if any)

A COPY OF THIS APPLICATION MUST BE FILED WITH THE TAXPAYER'S COMPLETED RETURN

BEST COPY AVAILABLE

SCHEDULE D (Form 1120) | U.S. Treasury Department—Internal Revenue Service | **GAINS AND LOSSES FROM SALES OR EXCHANGES OF PROPERTY** | **1964**

Name and address

IVAN ALLEN COMPANY - ATLANTA, GEORGIA

PART I.—GAIN FROM DISPOSITION OF DEPRECIABLE PROPERTY UNDER SECTIONS 1245 AND 1250—Assets Held More Than 6 Months—Where double headings appear, use the first heading for section 1245 and the second heading for section 1250.

a. Kind of property (if necessary, attach statement of descriptive details not shown below)	b. Date acquired (mo., day, yr.)	c. Date sold (mo., day, yr.)	d. Gross sales price	e. Cost or other basis, cost of subsequent improvements (if not purchased, attach explanation) and expense of sale
1.				

f. Depreciation allowed (or allowable) since acquisition (attach schedule)		g. Adjusted basis (e less sum of f-1 and f-2)	h. Total gain (d less g)	i. Ordinary gain (lesser of f-2 or h) —OR— (see instructions)	j. Other gain (h less i)
f-1. Prior to January 1, 1962 —OR— Prior to January 1, 1964	f-2. After December 31, 1961 —OR— After December 31, 1963				

2. Total ordinary gain. Enter here and on line 11 and identify as gain from Part I

3. Total other gain. Enter here and on line 4 and identify as gain from Part I

PART II.—SALE OR EXCHANGE OF PROPERTY UNDER SECTION 1231

a. Kind of property (if necessary, attach statement of descriptive details not shown below)	b. Date acquired (mo., day, yr.)	c. Date sold (mo., day, yr.)	d. Gross sales price	e. Depreciation allowed (or allowable) since acquisition (attach schedule)	f. Cost or other basis, cost of subsequent improvements (if not purchased attach explanation) and expense of sale	g. Gain or loss (d plus e less f)
4.						

5. Total (If gain, enter on line 9; if loss, enter on line 11. Identify as gain or loss from Part II.)

PART III.—CAPITAL ASSETS

Short-Term Capital Gains and Losses—Assets Held Not More Than 6 Months

6.						

7. Unused capital loss carryover (attach statement)

8. Total of short term capital gains or losses or difference between short term capital gains and losses

Long-Term Capital Gains and Losses—Assets Held More Than 6 Months

9. 100 sh. Ivan Allen Co. of Augusta	1958	8-21-64	2,665.00		1,000.00	1,665.00
20 sh. Ivan Allen Co. of Rome	6-30-63	5-20-65	1,367.80		1,375.76	(7.96)

10. Total of long term capital gains or losses or difference between long term capital gains and losses 1,657.04

PART IV.—PROPERTY OTHER THAN CAPITAL ASSETS

11.						

12. Total net gain (or loss). Enter here and on line 15

16—75387-1

Schedule D (Form 1120) 1964 — Page 2

PART I.—TOTAL SCHEDULE D GAINS AND LOSSES

13. Enter the excess of net short-term capital gain (line 8) over net long-term capital loss (line 10)		
14. Enter the excess of net long-term capital gain (line 10) over net short-term capital loss (line 8)		1,657.04
15. Net gain (loss) from property other than capital assets (line 12)		
16. Total lines 13, 14 and 15, enter here and on Form 1120, page 1, line 9		1,657.04

Alternative Tax Computation

(Component members of controlled corporate group use Form 3920 to compute your tax)

17. Taxable income (line 30, page 1, Form 1120)		341,045.82
18. Net long-term capital gain reduced by any net short-term capital loss (line 14)		1,657.04
19. Line 17 minus line 18		339,388.78
20. If amount of line 19 is:		
(a) **Not over $25,000**—Enter 22 percent of line 19		
(b) **Over $25,000**—Enter 50 percent of line 19	169,694.39	
Subtract $7,000 and enter difference Controlled - 5,500.00	164,194.39	164,194.39
21. 25 percent of line 18		414.26
22. Alternative tax (line 20 plus line 21). If applicable, enter on line 3, Schedule J, Form 1120, and write "alt." in the margin to the right of the entry		164,608.65

INSTRUCTIONS

(References are to the Internal Revenue Code)

Gains and losses from sales or exchanges of capital assets and other property.—Report sales or exchanges of capital assets and sales or exchanges of property other than capital assets in Schedule D. Every sale or exchange of property, even though no gain or loss may be indicated, must be reported in detail.

Losses from sales or exchanges of capital assets shall be allowed **only to the extent** of gains from such sales or exchanges. However, the amount of a net capital loss sustained in any taxable year may be carried over to each of the five succeeding taxable years (or to the extent such loss is attributable to a foreign expropriation loss to each of the ten succeeding taxable years). A net capital loss shall be treated in each such succeeding taxable year as a short-term capital loss to the extent not allowed as a deduction against any net capital gains of any taxable year intervening between the taxable year in which the net capital loss was sustained and the taxable year to which carried.

Definition of capital assets.—The term "capital assets" means property held by the taxpayer (whether or not connected with its trade or business) but does not include (1) stock in trade of the taxpayer or other property of a kind which would properly be included in the inventory of the taxpayer if on hand at the close of the taxable year, or property held by the taxpayer primarily for sale to customers in the ordinary course of its trade or business; or (2) property used in the trade or business, of a character which is subject to the allowance for depreciation provided in section 167, or real property used in the trade or business of the taxpayer; or (3) certain copyrights, literary, musical, or artistic compositions, or similar properties; or (4) accounts or notes receivable acquired in the ordinary course of trade or business for services rendered or from the sale of property described in (1) above; or (5) an obligation of the United States or any of its possessions, or of a State, or any political subdivision thereof, or of the District of Columbia, issued on or after March 1, 1941, on a discount basis and payable without interest at a fixed maturity date not exceeding 1 year from the date of issue.

Basis.—In determining gain or loss for property acquired after February 28, 1913, use cost, except where property was acquired by bequest, gift, tax-free exchange, involuntary conversion, or wash sale of stock; see sections 1014, 1015, 1031, 1033, and 1091, respectively. If the amount shown as the basis is other than actual cash cost of the property sold or exchanged, full details must be furnished regarding the acquisition of the property.

Losses on securities becoming worthless.—If any securities become worthless within the taxable year and are capital assets, the loss resulting therefrom shall, in the case of a taxpayer other than a bank, as defined in section 581, be considered as a loss from the sale or exchange, on the last day of such taxable year, of capital assets. Section 165(g)(1).

Losses not allowable.—No loss is recognized for wash sales of stock or securities. Section 1091.

No loss is allowed (except distributions in liquidation) between related persons. Section 267.

Gains from section 1245 or 1250 property held more than 6 months (Part I).—(*Report any gain from such property held for 6 months or less in Part IV.*) Except as provided below section 1245 property means depreciable (a) personal property (other than livestock) including intangible personal property; (b) tangible real property (except for buildings and their structural components) if used as an integral part of manufacturing, production, or extraction, or of furnishing transportation, communications, electrical energy, gas, water, or sewage disposal services, or used as a research or storage facility in connection with these activities; and (c) elevators or escalators.

Except as provided below section 1250 property means depreciable real property (other than section 1245 property).

See sections 1245(b) and 1250(d) for exceptions and limitations involving: (a) disposition by gift; (b) certain tax-free transactions; (c) like kind exchanges, involuntary conversions; and (d) sales or exchanges to effectuate FCC policies and exchanges to comply with S.E.C. orders.

Column f of Part I.—In computing depreciation allowed or allowable for elevators or escalators enter in column f-1 depreciation prior to July 1, 1963, and in column f-2 depreciation after June 30, 1963.

Column i of Part I, section 1250 property only.—If held for more than 6 months, but not more than 1 year, enter the smaller of

(1) column h, or
(2) column f-2.

If held for more than 1 year, enter the result of multiplying the smaller of

(1) column h, or
(2) column f-2 less the amount of depreciation computed for the same period using the straight line method,

by the percentage obtained by subtracting from 100%, one percentage point for each full month the property was held in excess of 20 months. Where substantial improvements have been made within the preceding ten years, see section 1250(f).

Gain on sales by a "controlled" corporation.—In the case of a sale or exchange, directly or indirectly, of property between an individual and a corporation more than 80 percent in value of the outstanding stock of which is owned by such individual, his spouse, and his minor children and minor grandchildren, any gain recognized to the transferor from such sale or exchange shall be treated as gain from the sale or exchange of property which is neither a capital asset nor property described in section 1231, if such property in the hands of the transferee is depreciable under section 167. Section 1239.

Installment sales.—If you sold personal property for more than $1,000 or real property regardless of amount, you may be eligible to report any gain under the installment plan if (1) there is no payment in the year of sale or (2) the payments in the year of sale do not exceed 30% of the selling price. Section 453.

For treatment of a portion of payments as "unstated interest" on deferred payment sales, see Section 483.

(Instructions continued on reverse of duplicate)

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Schedule D (Form 1120) 1965 — Page 2

PART V.—TOTAL SCHEDULE D GAINS AND LOSSES

13. Enter the excess of net short-term capital gain (line 8) over net long-term capital loss (line 10)	
14. Enter the excess of net long-term capital gain (line 10) over net short-term capital loss (line 8)	1,657.04
15. Net gain (loss) from property other than capital assets (line 12)	
16. Total lines 13, 14, and 15. Enter here and on Form 1120, page 1, line 9	1,657.04

Alternative Tax Computation

(Component members of controlled corporate group use Form 3320 to compute your tax)

17. Taxable income (line 30, page 1, Form 1120)		341,045.82
18. Net long-term capital gain reduced by any net short-term capital loss (line 14)		1,657.04
19. Line 17 minus line 18		339,388.78
20. If amount of line 19 is:		
(a) **Not over $25,000**—Enter 22 percent of line 19		
(b) **Over $25,000**—Enter 48 percent of line 19	162,906.61	
Subtract $25,000 and enter difference	Controlled - 5,000.00	157,906.61
21. 25 percent of line 18		414.26
22. Alternative tax (line 20 plus line 21). If applicable, enter on line 3, Schedule J, Form 1120, and write "alt." in the margin to the right of the entry		158,320.87

INSTRUCTIONS

(References are to the Internal Revenue Code)

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(1) column h, or
(2) column f-2.

If held for more than 1 year, enter the result of multiplying the smaller of
(1) column h, or
(2) column f-2 less the amount of depreciation computed for the same period using the straight line method,

by the percentage obtained by subtracting from 100%, one percentage point for each full month the property was held in excess of 20 months. Where substantial improvements have been made within the preceding ten years, see section 1250(f).

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(Instructions continued on reverse of duplicate)

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COST OF GOODS MANUFACTURED

IVAN ALLEN COMPANY - ATLANTA, GEORGIA

Year ended June 30, 1965

	Quick-copy	Printing
Inventory - materials, June 30, 1964	$ 3,974.10	$ 68,702.95
Purchases - materials	71,499.84	523,110.08
Freight	7.55	3,991.84
	$ 75,481.49	$ 595,804.87
Less inventory - materials, June 30, 1965	5,498.10	65,155.96
MATERIALS USED	$ 69,983.39	$ 530,648.91
Direct labor	$ 52,974.30	$ 313,501.55
Manufacturing expenses:		
Labor - indirect	$ -	$ 56,265.96
Payroll taxes	1,980.00	9,600.00
Rent - building	-	19,800.00
- equipment	2,998.88	372.20
Heat, power and water	-	14,082.37
Depreciation, equipment	383.86	19,200.72
Insurance	-	7,791.81
Taxes, general	-	2,274.32
Maintenance - equipment	3,462.68	14,632.35
Supplies - departmental	6,287.48	3,584.34
- litho	-	5,211.06
- letterpress	-	2,221.62
- composition	2,608.63	5,498.01
- cutting machine	476.57	456.19
- bindery "B"	-	917.68
- plate making	7,293.70	7,732.01
- collator	-	1,930.71
- rotary press	-	940.48
- camera	-	2,930.40
Outside services	2,207.38	23,741.80
Other	2,047.90	1,800.97
TOTAL MANUFACTURING EXPENSE	$ 29,545.08	$ 201,045.00
TOTAL COST OF GOODS MANUFACTURED	$152,503.77	$1,045,195.46

TAX SCHEDULE - 58-0136820

IVAN ALLEN COMPANY - ATLANTA, GEORGIA

Year ended June 30, 1965

DIVIDENDS

Xerox	$ 5,950.25
3 M Company	193.71
Ivan Allen Company of Huntsville	2,400.00
Ivan Allen Company of Augusta	4,000.00
Ivan Allen Company of Athens, Tenn.	4,000.00
Southern Airways	33.00
Ivan Allen Company of Gainesville	5,850.00
Ivan Allen Company of Columbus	1,500.00
Ivan Allen Company of Rome	14,700.00
Ivan Allen Company of Macon	11,666.67
Ivan Allen Company of Greenville	9,000.00
	$ 52,293.63

OTHER INCOME

Discount earned	$ 77,074.94
Sales tax compensation	214.52
Profit on special sales	6,557.19
Purchase charges to subsidiaries	92,440.76
	$176,287.41

COMPENSATION OF OFFICERS

	Compensation	Expenses
Ivan E. Allen, Chairman	$ 12,525.16	$ 960.42
W. H. Glenn, Jr., President	31,025.00	1,919.89
H. C. Jones, Exec. Vice-President	27,524.92	2,039.95
W. F. Floyd, Jr., Sec.-Treas.	21,224.92	706.47
J. H. Carnes, Vice-President	22,159.32	706.30
W. D. Harris, Vice-President	24,824.92	860.57
J. N. Murphy, Vice-President	17,024.92	3,413.05
	$156,309.16	

TAX SCHEDULE - 58-0136820

IVAN ALLEN COMPANY - ATLANTA, GEORGIA

Year ended June 30, 1965

OTHER DEDUCTIONS

Travel and entertainment	$ 54,895.25
Telephone and telegraph	33,932.67
Postage	18,116.77
Dues and subscriptions	19,438.35
Sales promotion	4,968.15
Stationery and supplies	45,950.23
Heat, power and water	16,973.23
Truck	21,165.60
Amortization, leaseholds	3,267.00
Insurance	23,581.98
Employees welfare	3,922.68
Administrative charges to subsidiaries	(56,100.00)
Legal and professional	10,629.13
Credits and collections	1,702.68
Bank charges	685.42
Contract services	12,778.30
Directors fees	1,700.00
Rent commissions	2,875.08
Pensions	2,808.60
Miscellaneous	20,822.82
	$244,113.94

QUESTION I (1) FEDERAL RETURN

Ivan Allen Company of Albany, Ga.	96.00%
Ivan Allen Company of Athens, Ga.	100.00
Ivan Allen Co. of Athens, Tenn.	66.67
Ivan Allen Co. of Augusta, Ga.	66.67
Ivan Allen Co. of Chattanooga, Tenn.	100.00
Ivan Allen Co. of Columbus, Ga.	66.67
Ivan Allen Co. of Gainesville, Ga.	90.00
Ivan Allen Co. of Greenville, S. C.	60.00
Ivan Allen Co. of Huntsville, Ala.	100.00
Ivan Allen Co. of Macon, Ga.	66.67
Ivan Allen Co. of Rome, Ga.	96.7

TAX SCHEDULE - 58-0136820

IVAN ALLEN COMPANY - ATLANTA, GEORGIA

Year ended June 30, 1965

TAXES		
City, state and county	$43,323.82	
Intangibles	1,643.19	
Domestic corporation	1,000.00	
Corporation registration	2.00	
Business licenses	943.00	
Automobile and truck	229.50	
Pay roll	49,755.07	$ 96,896.58
Less taxes charged to cost of sales		13,854.32
GEORGIA		$ 83,042.26
Georgia income tax - current years	$17,683.57	
- prior years	2,676.50	20,360.07
		$103,402.33
CONTRIBUTIONS		
Atlanta Humane Society		$ 25.00
Georgia Cumberland Conference		25.00
Exchange Club		40.00
Oglethorpe Boosters Club		50.00
Marion Howard School		236.48
Junior League		75.00
Florence Crittenton School		15.00
Empty Stocking Fund		750.00
Buckhead Lions Club		70.00
North Fulton Fine Arts Foundation		25.00
Christian City		100.00
Salvation Army		50.00
Allen Foundation:		
Cash	$10,000.00	
100 shares Xerox Corporation - cost 2-24-61 $641.98, fair market value 1-29-65	10,800.00	20,800.00
		$ 22,261.48
Less contributions carryover - federal		1,659.10
CONTRIBUTIONS - FEDERAL		$ 20,602.38

TAX SCHEDULE - 58-0136820

IVAN ALLEN COMPANY - ATLANTA, GEORGIA

Year ended June 30, 1965

BALANCE SHEETS	6-30-64	6-30-65
Other investments:		
Marketable securities	$161,428.56	$154,222.25
Investments in subsidiaries	318,525.55	351,141.38
	$479,954.11	$505,363.62
Other assets:		
Cash value of life insurance	$162,645.52	$176,864.59
Prepaid expenses	39,695.35	28,811.61
Leasehold improvements - net	23,096.13	19,829.13
	$225,437.00	$225,505.33
Other current liabilities:		
Income taxes	$180,752.36	$151,521.21
Other taxes	76,274.09	89,819.67
Accrued salaries and wages	10,037.53	16,557.54
Accrued interest	432.67	414.69
Accrued profit sharing pension contribution	59,257.06	59,786.76
	$326,753.71	$318,099.89

STATEMENT OF RETAINED EARNINGS

IVAN ALLEN COMPANY - ATLANTA, GEORGIA

Year ended June 30, 1965

Retained earnings, June 30, 1964			$1,997,242.28
Add:			
Net income for the year ended June 30, 1965		$232,584.98	
Excess of fair market value over cost of 100 shares Xerox Corp. stock donated to Allen Foundation:			
Fair market value 1-29-65	$10,800.00		
Cost	641.98	10,158.02	
Revenue Agent's adjustments for F.Y.E. 6-30-63 and 6-30-64:			
Capitalization of assets previously charged to expense	$43,696.12		
Reduction in allowable depreciation	685.58		
Reversal of accrual of contribution to Allen Foundation not timely paid	7,500.00	51,881.70	294,624.70
			$2,291,866.98
Deduct:			
Prior years' income taxes:			
Federal	$33,496.07		
Georgia	2,676.50	$ 36,172.57	
Dividends paid:			
Cash	$48,945.30		
870 shares Xerox Co. stock - at cost	6,564.34	55,509.64	91,682.21
RETAINED EARNINGS - JUNE 30, 1965			$2,200,184.77

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STATEMENT OF PROPERTY PLANT AND EQUIPMENT

IVAN ALLEN COMPANY - ATLANTA, GEORGIA

Year ended June 30, 1965

Statement of Property, Plant & Equipment
Ivan Allen Co
Year ended June 30, 1965

	Assets				Allowance for depreciation				Cost less depreciation
	Balance Jun.30,1964	Additions	Disposals	Balance Jun.30,1965	Balance Jun.30,1964	Provision	Deduction	Balance Jun.30,1965	Jun.30,1965
Rental property:									
Land									
972 Marietta St.	$ 35,250.00	$ -	$ -	$ 35,250.00	$ -	$ -	$ -	$ -	$ 35,250.00
1740 Peachtree St.	120,000.00	-	-	120,000.00	-	-	-	-	120,000.00
221 Ivy St.	74,000.00(C)	76,000.00	-	150,000.00	-	-	-	-	150,000.00
660 Forrest Road	72,000.00	-	-	72,000.00	-	-	-	-	72,000.00
Buildings:									
972 Marietta St.:									
1948 - 3%	81,997.69	-	-	81,997.69	39,768.85	2,459.93	-	42,228.78	39,768.91
Improvements:									
Sprinkler - 1948 - 5%	9,937.00	-	-	9,937.00	7,436.16	496.85	-	7,933.01	2,003.99
Roof - 1955 - 10%	4,097.84	-	-	4,097.84	3,892.91	204.93	-	4,097.84	-
1740 Peachtree St.:									
1959 - 5% - (A)	183,078.48	-	-	183,078.48	44,957.41	6,906.05	-	51,863.46	131,215.02
Improvements - 1959 - (A):									
Elevator - 10%	15,500.00	-	-	15,500.00	6,805.02	869.50	-	7,674.52	7,825.48
Blacktop - 13.3%	6,900.00	-	-	6,900.00	3,747.42	419.29	-	4,166.71	2,733.29
Electrical - 13.3%	31,000.00	-	-	31,000.00	16,831.40	1,884.42	-	18,715.82	12,284.18
Plumbing, heating and air-conditioning - 13.3%	63,000.00	-	-	63,000.00	34,105.73	3,842.94	-	37,948.67	25,051.33
Carpets, etc. - 20%	9,000.00	-	-	9,000.00	6,345.79	530.84	-	6,876.63	2,123.37
221 Ivy St.:									
1960 - 4%	177,012.25(C)	(76,000.00)	-	101,012.25	24,781.72	4,040.49(C)	6,300.84	22,521.37	78,490.88
1963 addition - 4%	428,754.03(C)	16,011.11	-	444,765.14	25,725.24	17,790.61(C)	(1,189.02)	44,704.87	400,060.27
1963 roof - 5%	- (C)	8,156.00	-	8,156.00	-	407.80(C)	(407.80)	815.60	7,340.40
1963 waterproofing and sign 20%	- (C)	9,190.54	-	9,190.54	-	1,838.10(C)	(2,103.67)	3,941.77	5,248.77
660 Forrest Road:									
1964 - 5% - (A)	121,058.94(C)	3,500.00	-	124,558.94	-	6,227.95	-	6,227.95	118,330.99
	$1,432,586.23	$36,857.65	$ -	$1,469,443.88	$214,397.65	$47,919.70	$ 2,600.35	$259,717.00	$1,209,726.88
Furniture and fixtures:									
Store - 1961-2 25% (A)	$ 249.24	$ -	$ -	$ 249.24	$ 124.12	$ 31.28	$ -	$ 155.40	$ 93.84
- 1962-3 25% (A)	161.41	-	-	161.41	55.49	26.48	-	81.97	79.44
Plant - 1958 20% (A)	3,562.74	-	-	3,562.74	2,722.18	168.11	-	2,890.29	672.45
Office - 1956 20% (A)	4,736.12	-	-	4,736.12	4,020.98	143.03	-	4,164.01	572.11
- 1957 20% (A)	388.88	-	-	388.88	314.82	14.81	-	329.63	59.25
- 1959 20% (A)	10,746.29	-	7,955.50	2,790.79	8,210.92	131.57	6,078.00	2,264.49	526.30
- 1961 20% (A)	3,675.00	-	-	3,675.00	1,981.56	338.69	-	2,320.25	1,354.75
- 1962 25% (A)	1,673.01	-	-	1,673.01	833.13	209.97	-	1,043.10	629.91
- 1964 25% (A)	3,960.00	-	-	3,960.00	495.00	866.25	-	1,361.25	2,598.75
- 1965 25% (B	-	7,439.50	-	7,439.50	-	2,083.06	-	2,083.06	5,356.44
	$ 29,152.69	$ 7,439.50	$7,955.50	$ 28,636.69	$ 18,758.20	$ 4,013.25	$ 6,078.00	$ 16,693.45	$ 11,943.24

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STATEMENT OF PORPERTY PLANT AND EQIUPMENT - CONTINUED

IVAN ALLEN COMPANY - ATLANTA, GEORGIA

Year ended June 30, 1965

	Assets				Allowance for depreciation				Cost less depreciation
	Balance Jun.30,1964	Additions	Disposals	Balance Jun.30,1965	Balance Jun.30,1964	Provision	Disposals	Balance Jun.30,1965	Jun.30,1965
Automobiles and trucks:									
Salesmen:									
1961 Falcon - 66 2/3% (A)	$ 1,606.78	$ -	$ -	$ 1,606.78	$ 1,472.88	$ 89.25	$ -	$ 1,562.13	$ 44.65
1962 Chevrolet - 66 2/3% (A)	3,471.22	-	-	3,471.22	2,699.84	514.50	-	3,214.34	256.88
1964 Oldsmobile - 33 1/3%	3,114.68	-	-	3,114.68	1,048.22	1,028.22	-	2,076.44	1,038.24
1964 Chevrolet - 33 1/3%	2,999.11	-	-	2,999.11	498.18	999.70	-	1,497.88	1,501.23
1964 Cadillac	5,706.21	-	5,706.21	-	951.03	-	951.03	-	-
1964 Ford Mustang	3,281.24	-	3,281.24	-	546.82	-	546.82	-	-
1965 Cadillac - 33 1/3%	-	6,581.09	-	6,581.09	-	2,193.70	-	2,193.70	4,387.39
Furniture department:									
1960 G.M.C. truck - 50% (A)	3,783.11	-	-	3,783.11	3,605.77	88.67	-	3,694.44	88.67
1962 Ford van	1,695.30	-	1,695.30	-	1,554.03	-	1,554.03	-	-
1963 Chevrolet stake - 66 2/3% (A)	1,917.35	-	-	1,917.35	1,065.19	568.20	-	1,633.39	283.96
1964 G.M.C. truck - 33 1/3%	5,815.29	-	-	5,815.29	1,938.23	1,938.23	-	3,876.46	1,938.83
1965 Dodge van - 33 1/3%	-	1,962.10	-	1,962.10	-	654.03	-	654.03	1,308.07
Printing department:									
1962 Chevrolet panel - 66 2/3% (A)	2,230.61	-	-	2,230.61	1,735.41	330.10	-	2,065.51	165.10
1962 Chevrolet S.W.	2,330.31	-	2,330.31	-	2,136.13	-	2,136.13	-	-
1964 Chevrolet S.W. - 33 1/3%	2,457.03	-	-	2,457.03	409.47	849.01	-	1,258.48	1,198.55
Store delivery:									
1962 Ford van 66 2/3% (A)	1,476.20	-	-	1,476.20	1,353.19	82.00	-	1,435.19	41.01
1962 Ford van 66 2/3% (A)	1,433.31	-	-	1,433.31	1,313.87	79.50	-	1,393.37	39.94
1962 Chevrolet stake - 66 2/3% (A)	1,772.89	-	-	1,772.89	1,379.30	262.25	-	1,641.55	131.34
1962 Corvan	2,253.05	-	2,253.05	-	2,065.31	-	2,065.31	-	-
1962 Chevrolet panel - 66 2/3% (A)	2,062.21	-	2,062.21	-	1,604.39	-	1,604.39	-	-
1962 Chevrolet panel - 66 2/3% (A)	1,682.13	-	-	1,682.13	1,308.70	248.85	-	1,557.55	124.58
1963 Ford van - 66 2/3% (A)	2,012.38	-	-	2,012.38	1,565.63	298.00	-	1,863.63	148.75
1964 Chevrolet panel - 33 1/3%	1,868.96	-	-	1,868.96	311.55	623.00	-	934.55	934.41
1964 Ford van - 33 1/3%	-	2,054.75	-	2,054.75	-	342.45	-	342.45	1,712.30
1965 Chevrolet panel - 33 1/3%	-	2,358.31	-	2,358.31	-	373.05	-	373.05	1,985.26
1965 Chevrolet panel - 33 1/3%	-	2,168.93	-	2,168.93	-	361.50	-	361.50	1,807.43
1965 Chevrolet panel - 33 1/3%	-	1,836.34	-	1,836.34	-	306.06	-	306.06	1,530.28
Quick-Copy department:									
1965 Ford - 33 1/3%	-	1,392.00	-	1,392.00	-	232.00	-	232.00	1,160.00
	$54,969.37	$18,353.52	$17,328.32	$55,994.57	$30,563.14	$12,462.27	$8,857.71	$34,167.70	$21,826.87

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STATEMENT OF PROPERTY PLANT AND EQUIPMENT - CONTINUED

IVAN ALLEN COMPANY - ATLANTA, GEORGIA

Year ended June 30, 1965

	Assets				Allowance for depreciation				Cost less depreciation
	Balance Jun.30,1964	Additions	Disposals	Balance Jun.30,1965	Balance Jun.30,1964	Provision	Disposals	Balance Jun.30,1965	Jun.30,1965
Machinery and equipment:									
Printing plant:									
6 1/4%:									
1946	$ 295.00	$ -	$ 295.00	$ -	$ 285.82	$ 9.18	$ 295.00	$ -	$ -
1947	11,899.60	-	-	11,899.60	11,699.60	-	-	11,699.60	200.00
1947	29,000.00	-	-	29,000.00	28,500.00	-	-	28,500.00	500.00
1949	7,200.00	-	7,200.00	-	7,038.00	162.00	7,200.00	-	-
1950	455.00	-	-	455.00	412.38	28.44	-	440.82	14.18
1951	12,875.20	-	-	12,875.20	10,863.45	804.70	-	11,668.15	1,207.05
20% (A):									
1954	42,135.00	-	-	42,135.00	37,836.99	859.60	-	38,696.59	3,438.41
1956	16,600.00	-	-	16,600.00	14,093.38	501.32	-	14,594.70	2,005.30
1957	3,858.00	-	-	3,858.00	3,129.82	145.64	-	3,275.46	582.54
1958	26,527.99	-	-	26,527.99	20,269.24	1,251.75	-	21,520.99	5,007.00
1961	10,225.00	-	-	10,225.00	4,335.40	1,177.92	-	5,513.32	4,711.68
1963	35,550.18(C)	6,838.47	-	42,388.65	8,756.79	6,343.42(C)	(1,914.77)	17,014.98	25,373.67
1964	38,414.50	-	-	38,414.50	5,641.45	6,554.61	-	12,196.06	26,218.44
1965 - (B)	-	9,012.50	-	9,012.50	-	1,362.14	-	1,362.14	7,650.36
Quick-copy department:									
20% - (A):									
1956	2,687.18	-	-	2,687.18	2,179.99	101.44	-	2,281.43	405.75
1956	3,173.42	-	-	3,173.42	2,694.24	95.83	-	2,790.07	383.35
1957	1,372.00	-	-	1,372.00	1,113.04	51.79	-	1,164.83	207.17
1958	2,856.74	-	-	2,856.74	2,182.74	134.80	-	2,317.54	539.20
	$ 245,124.81	$15,850.97	$ 7,495.00	$ 253,480.78	$161,032.33	$19,584.58	$ 5,580.23	$175,036.68	$ 78,444.10
	$1,761,833.10	$78,501.64	32,778.82	$1,807,555.92	$424,751.32	$83,979.80	$23,116.29	$485,614.83	$1,321,941.09

(A) Declining balance method
(B) Additional first year depreciation taken on first $10,000.00.
(C) R.A.R. adjustments

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Form 1120 (1964) Page 3

Schedule I.—SPECIAL DEDUCTIONS
(Small business investment companies and members of affiliated groups not filing a consolidated return—see instructions)

1. Dividends received: (a) 85 percent of column 2, Schedule C	50,399.59
(b) 61.2 percent of column 3, Schedule C (see instructions for fiscal year)	
(c) 85 percent of dividends received from certain foreign corporations	
2. Total dividends-received deductions (sum of lines 1 (a), (b), and (c) but not to exceed 85 percent of the excess of line 28, page 1 over line 4 of this schedule). (The 85-percent limitation does not apply to a year in which a net operating loss occurs.)	50,399.59
3. Dividends paid on certain preferred stock of public utilities (see instructions in case of net operating loss or fiscal year)	
4. Western Hemisphere trade corporations (not allowable in year of net operating loss—see inst. for fiscal year)	
5. Total special deductions—Add lines 2, 3, and 4. Enter here and on line 29(b), page 1	50,399.59

SCHEDULE J.—TAX COMPUTATION
(Component members of controlled corporate group use Form 3920 to compute your tax)

1. Taxable income (line 30, page 1)		
2. If amount of line 1 is:		
(a) **Not over $25,000**—Enter 22 percent of line 1		
(b) **Over $25,000**—Enter 50 percent of line 1		
Subtract $7,000 and enter difference	7,000.00	
3. Income tax (line 2, or line 22 of separate Schedule D, whichever is lesser, or fiscal year tax computation)		161,490.59
4. Foreign tax credit (attach Form 1118)		
5. Balance (line 3 less line 4)		161,490.59
6. Investment credit (attach Form 3468)		1,151.64
7. Balance of income tax (line 5 less line 6)		160,338.95
8. Tax under section 541 of the Internal Revenue Code (from Schedule 1120 PH)		
9. Tax from recomputing prior year investment credit (attach statement)		
10. Total tax—Add lines 7, 8, and 9. **Enter here and on line 31, page 1**		160,338.95

SCHEDULE FY
(Fiscal year tax computation schedule for taxpayers with taxable income over $25,000)

1. Taxable income (line 30, page 1)		
2. 50 percent of line 1		
Subtract $7,000 and enter difference	7,000.00	
3. 48 percent of line 1		
Subtract $6,500 and enter difference	6,500.00	
4. Amount on line 2 or alternative tax (separate Schedule D) multiplied by the number of days in the taxable year prior to January 1, 1965, divided by the total number of days in the taxable year		82,980.79
5. Amount on line 3 or alternative tax (separate Schedule D) multiplied by the number of days in the taxable year after December 31, 1964, divided by the total number of days in the taxable year		78,509.80
6. Income tax—Add lines 4 and 5. Enter here and on line 3, Schedule J		161,490.59

H. Date incorporated 12-5-02

I. (1) Did the corporation at the end of the taxable year own directly or indirectly 50 percent or more of the voting stock of a domestic corporation? Yes ☒ No ☐

(2) Did any corporation, individual, partnership, trust, or association at the end of the taxable year own directly or indirectly 50 percent or more of the corporation's voting stock? Yes ☐ No ☒
(For rules of attribution, see section 267 (c).)
If the answer to (1) or (2) is "Yes," attach separate schedule showing:
(a) name, address, and employer identification no.; and (b) percentage owned.
If the answer to (1) above is "Yes," include the income (or loss) from line 30, page 1, Form 1120 of such corporation for the taxable year ending with or within your taxable year.

J. Did you have any contracts or subcontracts subject to the Renegotiation Act of 1951? Yes ☐ No ☒
If "Yes," see inst. K. Enter amount here

K. Did you at any time during the year own directly or indirectly any stock of a foreign corporation? Yes ☐ No ☒
If "Yes," attach statement as required by instruction N.

L. Amount of income (or loss) for: 1961 427,727.91 1962 374,114.60 1963 437,962.77

M. Did you claim a deduction for expenses connected with:
(1) A hunting lodge ☐, working ranch or farm ☐, fishing camp ☐, resort property ☐, pleasure boat or yacht ☐ or other similar facility ☐? (Other than where the operation of the facility was the principal business.) Yes ☐ No ☒

(2) The leasing, renting, or ownership of a hotel room or suite ☐, apartment ☐, or other dwelling ☐, which was used by customers or employees or members of their families? (Other than use by employees while in business travel status.) Yes ☐ No ☒

(3) The attendance of your employees' families at conventions or business meetings? Yes ☐ No ☐

(4) Vacations for employees or members of their families? (Other than amount reported on Form W-2.) Yes ☐ No ☒

N. Refer to instructions and state the:
Principal business activity office outfitters
Principal product or service

O. Were you a member of a controlled group subject to the provisions of section 1561? Yes ☐ No ☒, or section 1562? Yes ☒ No ☐
If so, check type of relationship: 1. parent-subsidiary ☒ 2. brother-sister ☐ 3. combination of (1) and (2) ☐ (see section 1563).

P. Were you in 1963 a component member of a controlled group as defined in section 1563? Yes ☒ No ☐
If so, were you represented in a consolidated return?
Yes ☐ No ☒

18—76388-1

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Form 1120 (1964) Page 4

Schedule L.—BALANCE SHEETS (See Instructions)

ASSETS	Beginning of taxable year (A) Amount	Beginning of taxable year (B) Total	End of taxable year (C) Amount	End of taxable year (D) Total
1. Cash		404,114.09		319,726.66
2. Notes and accounts receivable	674,774.73		776,084.23	
(a) Less: Reserve for bad debts		674,774.73		776,084.23
3. Inventories		516,537.81		569,214.25
4. Investments in Government obligations				
5. Other current assets (attach schedule)				
6. Loans to stockholders				
7. Other investments (attach schedule)		479,954.11		505,363.62
8. Buildings and other fixed depreciable assets	1,460,583.10		1,430,305.92	
(a) Less: Accumulated amortization and depreciation	424,751.32	1,035,831.78	485,614.83	944,691.09
9. Depletable assets				
(a) Less: Accumulated depletion				
10. Land (net of any amortization)		301,250.00		377,250.00
11. Intangible assets (amortizable only)				
(a) Less: Accumulated amortization				
12. Other assets (attach schedule)		225,437.00		225,505.33
13. Total assets		3,637,899.52		3,717,835.18
LIABILITIES AND CAPITAL				
14. Accounts payable		560,636.95		460,409.29
15. Mortgages, notes, and bonds payable in less than 1 year		14,125.35		14,922.11
16. Other current liabilities (attach schedule)		326,753.71		318,099.89
17. Loans from stockholders				
18. Mortgages, notes, and bonds payable in 1 year or more		305,787.59		290,865.48
19. Other liabilities (attach schedule)				
20. Capital stock: (a) Preferred stock	376,860.00	376,860.00	376,860.00	376,860.00
(b) Common stock		56,493.64		56,493.64
21. Paid-in or capital surplus (attach reconciliation)				
22. Surplus reserve (attach schedule)				
23. Earned surplus and undivided profits		1,997,242.28		2,200,184.77
24. Total liabilities and capital		3,637,899.52		3,717,835.18

ITEMIZED ENTRIES MADE BELOW MUST BE IDENTIFIED BY ACCOUNT

Schedule M-1.—RECONCILIATION OF INCOME PER BOOKS WITH INCOME PER RETURN

1. Net income per books	232,584.08	7. Income recorded on books this year not included in this return (itemize) Increase in C.S.V. life insurance in excess of cost	1,223.25
2. Federal income tax	161,101.08		
3. Excess of capital losses over capital gains			
4. Taxable income not recorded on books this year (itemize)		8. Deductions in this tax return not charged against book income this year (itemize) Prior years state income taxes	2,676.50
5. Expenses recorded on books this year not deducted in this return (itemize) excess contributions	1,659.10	9. Total of lines 7 and 8	3,899.75
6. Total of lines 1 through 5	395,345.16	10. Income (line 28, page 1)—line 6 less 9	391,445.41

Schedule M-2.—ANALYSIS OF EARNED SURPLUS AND UNDIVIDED PROFITS PER BOOKS (line 23, page 4)

1. Balance at beginning of year		5. Distributions: (a) Cash	
2. Net income per books		(b) Stock	
3. Other increases (itemize)		(c) Property	
		6. Other decreases (itemize)	
		7. Total of lines 5 and 6	
4. Total of lines 1, 2, and 3		8. Balance at year (line 4 less 7)	Schedule

FORM **2950** (Rev. July 1962)
U.S. Treasury Department
Internal Revenue Service

STATEMENT IN SUPPORT DEDUCTION
For Payments to an Employees' Pension, Profit-Sharing, Stock Bonus Trust or Annuity Plan and Compensation Under a Deferred-Payment Plan

Name and address: IVAN ALLEN COMPANY - ATLANTA, GEORGIA

Employer taxable year ended: June 30, 1965

Employer identification No.: 58-0136820

PART I.—DEDUCTION CLAIMED UNDER SECTION 404(a)(1), (2), (3), or (7)

1. Name of plan: Profit sharing pension plan of Ivan Allen Company and subsidiaries

2. Type of plan:
☐ Pension or annuity ☒ Profit-sharing ☐ Stock bonus

3. If a favorable determination letter has been received indicating that this plan qualifies under section 401 of the Code, give date of most recent determination letter: July 17, 1956

4. Medium of funding: (Check each applicable box)

(a) Trusteed plan:
- ☐ Individual annuity contracts
- ☒ Individual contracts containing life insurance
- ☐ Self-administered
- ☐ Other (Specify)

(b) Nontrusteed plan:
Group contract:
- ☐ Deposit administration
- ☐ Deferred annuity
- ☐ Group permanent
- ☐ Individual annuity contracts
- ☐ Other (Specify)

5. Total number of employees as of the close of the year for each of the following groups based on reasonable estimates:

(a) Employees ineligible because of requirements as to:
- (i) Temporary, seasonal, part-time: -
- (ii) Job classification and not included in (i) (e.g., hourly paid, etc.): -
- (iii) Length of service and not included in (i) or (ii): 197
- (iv) Minimum age and not included in (i) through (iii): 6
- (v) Minimum pay (Solely):
- (vi) Other and not included in (i) through (v) (Specify):
- (vii) Totals ((i) through (vi)):

(b) Employees eligible for coverage but not covered by plan:

(c) Employees covered by plan: 146

(d) Total of all employees (lines (a)(vii), (b), and (c)): 349

(e) If you claim that the requirements of section 401(a)(3)(A) are satisfied, check here ☒ and attach necessary data and computation to substantiate.

6. In the case of:
(a) Trust—Attach a detailed balance sheet and a detailed statement of receipts and disbursements.
(b) Nontrusteed Annuity Plan—Attach a detailed statement including for each insurer (1) the name of the insurer, (2) the contributions paid by the employer, (3) the contributions paid by the employees, and (4) the amounts and kinds of premium refunds or similar credits made available and the disposition of such credits.
(c) Pension or Annuity Plan—For each year a summary of the costs or liabilities and adjustments under the plan based on the application of the methods, factors, and assumptions used under the plan must be submitted in sufficient detail to permit ready verification of the reasonableness thereof.

7. (a) Total nondeferred compensation paid or accrued for all employees under the plan		$1,295,802.54
(b) Total nondeferred compensation paid or accrued for all employees		$2,125,113.82
(c) Total amount of contributions allocated for the benefit of employees, former or retired employees, or their beneficiaries (including any insurance provided thereby or directly related thereto)	$ -	
Less: Employee contributions	-	$ -
(d) If a profit sharing or stock bonus plan: (i) Amount originally allocated in the year		$ 74,786.78
(ii) Amount reallocated in the year (forfeitures)		$ 19,263.31

8. Determination of total contributions subject to limitations:

(a) Contributions by the employer during taxable year (from schedule A, Part II)	$	74,786.78
(b) Contribution carryover from previous years (from schedule B, Part II)	$	
(c) Total contributions subject to limitations ((a) plus (b))	$	74,786.78
(d) (i) Total amount deductible without regard to section 404(a)(7) (lesser of (c) or applicable limitations)	$	74,786.78
(ii) Carryover to future years ((c) less (d)(i))	$	

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9. Statement required with respect to each of the 25 highest-paid employees covered by the plan OR participating stockholder-employees who own more than 5 percent of the ...ng stock and who are among the 25 highest paid ...whichever is applicable. (See instructions.)

	EMPLOYEE NAME (The letters on each line identify the line entries for the employee in the following sections of the form) (a)	Is Employee an Officer (b) Yes	(b) No	Percent of Voting Stock Owned (see instructions) (c)	Are Principal Duties Supervisory (d) Yes	(d) No	Year of Birth (e)	Length of Service for Employer (years) (f)
A	Ivan Allen, Sr.	X		31.20	X		1876	64
B	Ivan Allen, Jr.		X	45.46	X		1911	34
C	W. H. Glenn, Jr.	X		6.44	X		1913	14
D								
E								
F								
G								
H								
I								
J								
K								
L								
M								
N								
O								
P								
Q								
R								
S								
T								
U								
V								
W								
X								
Y								

EMPLOYEE		NONDEFERRED COMPENSATION: Basic Compensation and Overtime (g)	Other Direct Payments (h)	Other Than Cash (i)	TOTAL (j)	Amount Allocated for the Benefit of the Employee or Beneficiary (Include any insurance provided thereby or directly related thereto), less Employee's Contributions: Under Each Other Plan of Deferred Compensation (k)	Under This Plan (l)	If Profit-Sharing or Stock Bonus Plan: Amount Allocated in the Year Originally (m)	Amount Reallocated in the Year (n)
7	A	12,525			12,525	-	1,333.44	1,060.31	273.13
	B	15,025			15,025	-	1,116.03	887.44	228.59
	C	31,025			31,025		971.08	772.19	198.89
	D								
	E								
	F								
	G								
	H								
	I								
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TAX SCHEDULE - 58-0136820

IVAN ALLEN COMPANY - ATLANTA, GEORGIA

Year ended June 30, 1965

FORM 2950 - PART I SEC. 7 (d) (i)

	Charged to expense	Credited to employees
Ivan Allen Company - Atlanta, Ga.	$60,000.00	$ 75,454.59
- Albany, Ga.	841.34	1,058.05
- Athens, Tenn.	795.23	1,000.07
- Augusta, Ga.	1,365.73	1,717.51
- Chattanooga, Tenn.	1,140.99	1,434.89
- Columbus, Ga.	772.19	971.08
- Gainesville, Ga.	1,434.88	1,804.47
- Greenville, S. C.	3,641.95	4,580.04
- Huntsville, Ala.	731.85	920.35
- Macon, Ga.	2,091.82	2,630.61
- Rome, Ga.	1,970.80	2,478.43
	$74,786.78	$ 94,050.09
Forfeitures	19,263.31	-
	$94,050.09	$ 94,050.09

TRUST FUND BALANCE SHEET

ASSETS

Cash and due from employer	$ 81,629.85
Securities (at cost)	748,248.86
Accrued income	3,854.92
	$833,733.63

LIABILITIES

Insurance premiums payable	$ 18,265.20
Allocated to members	815,468.43
	$833,733.63

TRUST FUND INCOME

Employer contribution		$ 74,786.78
Dividends and interest received		29,034.18
Insurance refunds		2,706.52
		$106,527.48
Deduct:		
Loss on sale of securities	$ 280.14	
Insurance premiums paid	19,574.88	
Benefits to members	15,949.01	35,804.03
		$ 70,723.45

EMPLOYEE	EMPLOYEE CONTRIBUTIONS UNDER THIS PLAN (o)	IF PENSION OR ANNUITY PLAN: Retirement Age (p)	Expected Date of Retirement (q)	Form of Retirement Benefit (r)	Annual Rate or Amount of Retirement Benefit (s)	Aggregate of All of the Employee's Contributions Under the Plan (t)
Y						
Total	58,575			58,575	20.55	2,719.94	700.61
A						
B						
C						
D						
E						
F						
G						
H						
I						
J						
K						
L						
M						
N						
O						
P						
Q						
R						
S						
T						
U						
V						
W						
X						
Y						
Total						

10. Have you attached copies of the following which you are required to submit for the **first taxable year** for which a deduction is claimed or for **subsequent years** if there is any **change** in the plan, instruments, methods, factors or assumptions?

ITEM	YES	NO
a. Verified copies of all instruments constituting the plan, including trust indentures, group annuity contracts, specimen copy of each type of individual contract and specimen copy of formal announcement and comprehensive detailed description to employees, with all amendments to any such instruments	X	
b. A statement which sets forth: (1) Name or names of employers	X	
(2) Effective date of the plan and any amendments thereto	X	
(3) Method of distribution or of disbursing benefits (whether by trustee, insurance company, or otherwise)	X	
(4) Dates when the instruments or amendments were executed	X	
(5) Date of formal announcement	X	
(6) Dates when comprehensive detailed description of the plan and of each amendment thereto were made available to employees generally	X	
(7) Date when plan was put into effect	X	
(8) Date when trust or contract and any amendments thereto were put into effect so that contributions thereunder were irrevocable	X	

ITEM	YES	NO
c. A summary of the provisions and rules relating to: (1) Employee eligibility requirements for participation in the plan	X	
(2) Employee contributions		X
(3) Employer contributions	X	
(4) The basis or formula for determining the amount of each type of benefit and the requirements for obtaining such benefits and the vesting conditions	X	
(5) The discontinuance or modification of the plan and distributions or benefit payments upon liquidation or termination		X
d. If pension or annuity plan, a detailed description of all the methods, factors, and assumptions used in determining costs and in adjusting the cost for actual experience under the plan (including any loadings, contingency reserves, or special factors and the basis of any insured costs or liabilities involved therein) explaining their source and application in sufficient detail to permit ready analysis and verification thereof, and in the case of a trust, a detailed description of the basis used in valuing the investments held		X

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Page 3

PART II.—DETERMINATION OF ALLOWABLE DEDUCTION

Schedule A—Employer Contributions (See instructions)

Check whether contributions were made: ☒ Cash ☐ Other than cash

Dates Paid	Amount	Dates Paid	Amount
Paid	15,000.00		
Accrued 6-28-65			
Paid 9-13-65	59,768.78		
		Total	74,768.78

Schedule F—Contribution Carryover (Complete the following for each of the six taxable years prior to the current year, without regard to section 404(a)(7))

Year Ended (a)	Amount Contributed (b)	Amount Deductible (c)	Cumulative Carryover To Succeeding Years (d)
19			
19			
19			
19			
19			
19			

Cumulative carryover equals column (d) from previous year plus column (b) for current year, less column (c) for current year. (See instructions.)

SCHEDULE C.—PENSION TRUSTS AND ANNUITY PLANS (Complete either I or II)

I. Section 404(a)(1)(A) and (B) Limitations

1. Total nondeferred compensation paid or accrued during taxable year to all covered employees (from line 7(a) Part I) — $
2. Limitation under section 404(a)(1)(A)—5 percent of line 1 (unless limitation has been reduced) — $
3. Limitation under section 404(a)(1)(B) if aggregate cost method is used (See Regs., section 1.404(a)-5(c)) — $
4. Total of lines 2 and 3 if aggregate cost method is used — $
5. (a) Gross annual premiums under "Individual Contract Plan" (see instructions) — $
   (b) Less: Dividends and other credits — $
   (c) Net premiums due (line 5(a) less line 5(b)) — $

II. Section 404(a)(1)(C) Limitations

1. Normal cost (current year's service cost) — $
2. Total past service or supplemental base — $
3. 10 percent of line 2 (see instructions) — $
4. Total of lines 1 and 3 — $
5. Less: Credits and gains — $
6. Net limitation (line 4 less line 5) — $

SCHEDULE D.—PROFIT-SHARING AND STOCK BONUS PLANS (Section 404(a)(3)(A) Limitations)

1. Total nondeferred compensation paid or accrued for all employees under the plan (from line 7(a), Part I) — $ 1,295,802.54
2. Limitation—15 percent of compensation shown on line 1 — $ 194,370.38
3. Contributions by the employer during the year (from line 8(a), Part I) — $ 74,786.78
4. Contribution carryover from previous years (from line 8(b), Part I) — $ -
5. Total contributions subject to limitation (from line 8(c), Part I) — $ 74,786.78
6. Credit carryover (Attach computations) — $ -
7. Limitations: Primary (lesser of line 5, or line 2) or secondary* — $ 74,786.78

*Secondary (smallest of line 3, line 2 plus line 6, or two times line 2). Secondary limitation applies only if there is a credit carryover on line 6.

SCHEDULE E.—Section 404(a)(7) Limitations. See instructions.

1. Amount deductible for year under section 404(a)(7):
   (a) 30 percent of covered compensation in year — $
   (b) (i) 25 percent of covered compensation in year — $
   (ii) Total amount otherwise deductible for year — $
   (iii) Smaller of (i) or (ii) — $
   (iv) Carryover from prior years under section 404(a)(7) (attach computation) — $
   (v) Sum of (iii) and (iv) — $
   (c) Amount deductible (lesser of (a) or (b)(v)) — $
2. Carryover to succeeding years under section 404(a)(7) (line 1(b)(iv) plus line 1(b)(ii) less line 1(c)) — $

PART III.—DEDUCTION CLAIMED UNDER SECTION 404(a)(5)

1. Type of plan: ☐ Pension or annuity ☐ Profit sharing ☐ Stock bonus ☐ Other plan of deferred compensation
2. The amount of the deduction — $
3. Total number of employees covered
4. Total number of employees employed

5. Was the amount deducted paid:
   ☐ Directly to an employee, a former employee, or his beneficiary
   ☐ To a trust ☐ To an insurance company ☐ To another person

6. Have you attached a statement containing such information as is necessary to show that the deduction is not allowable under section 404(a)(1), (2), (3), and (7), that the amount paid is an ordinary and necessary expense or an expense for the production of income and that the employees' rights to, or derived from, the employer's contribution or deferred compensation were nonforfeitable at the time the contribution or compensation was paid? ☐ Yes ☐ No

☆ U.S. GOVT. PRINT. OFFICE: 1967—O-691 999

FORM 3468
U.S. Treasury Department
Internal Revenue Service

COMPUTATION OF INVESTMENT CRE. —1964

For taxable year beginning July 1, 1964, ending June 30, 1965

TO BE ATTACHED TO YOUR TAX RETURN

Name (as shown on page 1 of your tax return)

IVAN ALLEN COMPANY

Address (number and street)

BOX 1712

City or town, and State

ATLANTA, GA. 30301

1. Qualified investment in new or used property

NOTE: Include your share of investment in property by a partnership, estate, trust, small business corporation, or lessor.

Type of property	Line	(1) Life years	(2) Cost or basis	(3) Applicable percentage	(4) Qualified investment (column 2 x column 3)
NEW PROPERTY	(a)	4 to 6		33⅓	
	(b)	6 to 8		66⅔	
	(c)	8 or more	16,452.00	100	16,452.00
USED PROPERTY (for dollar limitation see instructions)	(d)	4 to 6		33⅓	
	(e)	6 to 8		66⅔	
	(f)	8 or more		100	

2. Total qualified investment—add lines 1(a) through (f)	16,452.00
3. Tentative investment credit—7% of line 2 (for public utility property, enter 3% of line 2)	1,151.64
4. Carryback and carryover of unused credit(s) (attach statement)	
5. TOTAL (line 3 plus line 4)	1,151.64

COMPUTATION OF TAX FOR PURPOSES OF LIMITATION

6. (a) Individuals (enter amount from line 12, page 1, Form 1040)		161,490.59
(b) Estates and trusts (enter amount from line 25 or 26, page 1, Form 1041)		
(c) Corporations (enter amount from line 5, Tax Computation Schedule, Form 1120)		
7. Individuals, estates and trusts:		
Less: (a) Foreign tax credit		
(b) Dividends received credit		
(c) Retirement income credit		
(d) Total (add lines (a), (b), and (c))		
8. Balance (line 6 less line 7(d))		161,490.59

LIMITATION BASED ON AMOUNT OF TAX

(Married persons filing separately, affiliated groups, estates and trusts—see instructions)

9. (a) Enter amount on line 8 or $25,000, whichever is lesser	25,000.00
(b) If line 8 is in excess of $25,000, enter 25% of the excess	34,122.65
(c) Total (add lines (a) and (b))	59,122.65
10. Investment credit (enter amount on line 5 or 9(c), whichever is lesser)	1,151.64

SCHEDULE A

If any part of your investment in 1 above was made by a partnership, estate, trust, small business corporation, or lessor complete the following:

Name (Partnership, estate, trust, etc.)	Address	Property		
		New	Used	Life years
		$	$	

GENERAL INSTRUCTIONS

A. Who Must File.—Any individual, estate, trust, or corporation claiming an investment credit against its tax must attach this form to its income tax return. Partnerships and small business corporations are not required to file this form because the credit is claimed by the partner or shareholder. However, partnerships and small business corporations must attach a statement to their returns showing the allocation of investment to the partners or shareholders by amount, type and life of property as shown in item 1 of this form. Estates and trusts which apportion the investment between the estate or trust and the beneficiaries should in addition to filing this form attach a statement showing the allocation of the investment among the beneficiaries.

B. When Allowed.—A credit is allowed against your tax for investment in certain depreciable property having an estimated useful life of 4 years or more. The credit is allowed for the first year property is placed in service, even though under the depreciation convention used you may not be able to claim a deduction for depreciation on the property until the following year.

C. Property Defined.—The investment credit is applicable to (a) tangible personal property, (b) real property (except for buildings and their structural components) if used as an integral part of manufacturing, production or extraction, or used as a research or storage facility in connection with these activities, and (c) elevators and escalators, if their construction, reconstruction, or erection is completed by the taxpayer after June 30, 1963, or if they are acquired after June 30, 1963, and their original use commences with the taxpayer and commences after such date.

The investment credit is not applicable to (1) certain property which is used predominantly outside the United States, (2) property used for lodging or in connection with furnishing lodging, except (a) property used in certain commercial facilities located therein (such as a restaurant) or (b) property used by a hotel or motel, (3) property used by a tax-exempt organization (other than in a business to which the unrelated business income tax applies), (4) property used by governmental units, (5) livestock (including racehorses).

D. Election for Leased Property.—A lessor may elect to treat an investment in new property as if made by the lessee instead of the lessor. If the lessor makes this election, then the lessee is treated as if he had acquired the property (see section 48(d) for determination of basis).

Where a lessor makes an election with respect to leased property, such election must be made in accordance with section 48(d) and the regulations thereunder.

E. Replacement Property.—Where insured property is lost or destroyed as a result of a casualty or is stolen, reinvestment of the insurance proceeds in replacement property may not be eligible for investment credit.

F. Disposition of Property.—Where property is disposed of prior to the life used in computing the investment credit, the tax for the year in which the property is so disposed of must be increased by the difference between the credit taken on such property and the credit which would have been allowed had the actual life been used. Such increase should be entered on the line provided on your tax return.

G. Limitations With Respect to Certain Persons.—In the case of (1) mutual savings banks, building and loan associations and cooperative banks, (2) a regulated investment company or a real estate investment trust subject to taxation under Subchapter M, and (3) a cooperative organization described in section 1381(a), the qualified investment and the $25,000 limitation shall equal such person's ratable share of such items in accordance with section 46(d)(2).

H. Carryback and Carryover of Unused Credits.—If the amount of the investment credit for any taxable year exceeds the limitation, the excess shall be an investment credit carryback to each of the 3 preceding taxable years and an investment credit carryover to each of the 5 succeeding taxable years and shall be added to the amount allowable as a credit for such years. However, such excess may be a carryback only to a taxable year ending after December 31, 1961.

I. Basis and Cost.—The credit for new property applies to the basis of the property. The credit for used property applies to the cost of the property. The cost (of used property) does not include the basis of any property traded in. No adjustment for additional first-year depreciation or salvage value is required.

SPECIFIC INSTRUCTIONS

Line 1. New Property.—Enter the basis of property as described in General Instructions C and I placed in service during the taxable year. In the case of property constructed, reconstructed or erected by you, enter only that portion of the basis which is properly attributable to construction, reconstruction or erection after December 31, 1961.

Used Property.—Enter the cost (subject to dollar limitation below) of used property placed in service during the taxable year.

Dollar Limitation on Used Property.—In general, the amount of used property taken into account may not exceed $50,000. In the case of a husband and wife filing separate returns, and each has used property taken into account on their returns, the amount may not exceed $25,000. In the case of a partnership, the $50,000 limitation shall apply with respect to the partnership and with respect to each partner. In the case of affiliated groups, the $50,000 limitation shall be reduced for each member of the group by apportioning $50,000 among the members of such group in accordance with their respective amounts of used property which may be taken into account.

Estates and Trusts.—In the case of an estate or trust the amount of the investment is apportioned between the estate or trust and the beneficiaries on the basis of the income of the estate or trust allocable to each.

Line 6. Individuals and corporations filing forms other than Forms 1040 and 1120, use the tax figure shown on your return which is comparable to the figure to be used by a taxpayer using Form 1040 or 1120.

Line 9. Limitation Based on Amount of Tax.—In the case of a husband and wife filing separate returns and both have qualified investments, the amount specified on lines 9(a) and (b) shall be $12,500 instead of $25,000. In the case of affiliated groups, the $25,000 specified on lines 9(a) and (b) shall be reduced for each member of the group by apportioning the $25,000 among the members of such group. In the case of an estate or trust the $25,000 limitation specified on lines 9(a) and (b) shall be reduced to an amount which bears the same ratio to $25,000 as the amount of qualified investment allocated to the estate or trust bears to the entire qualified investment.

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Exhibit B

Form 1120 U.S. CORPORATION INCOME TAX RETURN 1965

U.S. Treasury Department — Internal Revenue Service — For calendar year 1965 or other tax year beginning ____, 1965, ending ____, 19__ — (PLEASE TYPE OR PRINT)

Check if a: A. Sale or transfer of ... B. Consolidated return ☐ C. Personal Holding Co. ☐ D. Business Code No. (see instructions) 5298

Name: 58-611b820 — 1966 DO 58 6 — EVAN ALLEN COMPANY
Number: BOX 1712
City: ATLANTA — GA — 30301
5834715725104

E. Employer Identification No. 6-013-6820
F. County in which located: Fulton
G. Enter total assets from line 13 Sch. L (see instruction ...): $ 4,166,420.53

IMPORTANT — All applicable lines and schedules must be completed. If the lines on the return are not sufficient ... section Q.

GROSS INCOME	1. Gross receipts or gross sales — Less: Returns and allowances		7,715,373.16
	2. Less: Cost of goods sold (Schedule A) and or operations (attach schedule)		5,465,114.67
	3. Gross profit		2,250,258.49
	4. Dividends (Schedule C)		60,457.48
	5. Interest on obligations of the United States and U.S. instrumentalities		
	6. Other interest		9,037.35
	7. Rents		155,964.15
	8. Royalties		
	9. Net gains (losses) — (separate Schedule D)		255,920.08
	10. Other income (attach schedule)		219,678.44
	11. TOTAL income — Add lines 3 through 10		2,951,316.91
DEDUCTIONS	12. Compensation of officers (Schedule E)		166,090.29
	13. Salaries and wages (not deducted elsewhere)		1,289,765.64
	14. Repairs (do not include cost of improvements or capital expenditures)		22,147.42
	15. Bad debts (Schedule F if reserve method is used)		13,980.92
	16. Rents		88,302.02
	17. Taxes (attach schedule)		125,488.64
	18. Interest		23,499.01
	19. Contributions (attach schedule — see instructions for limitation)		29,411.43
	20. Losses by fire, storm, shipwreck, other casualty, or theft (attach schedule)		
	21. Amortization (attach schedule)		
	22. Depreciation (Schedule G)		69,958.60
	23. Depletion (attach schedule)		
	24. Advertising		94,129.17
	25. (a) Pension, profit-sharing, stock bonus, annuity plans (see instructions)		70,000.00
	(b) Other employee benefit plans (see instructions)		
	26. Other deductions (attach schedule)		277,642.63
	27. TOTAL deductions — Add lines 12 through 26		2,270,415.55
	28. Taxable income before net operating loss deduction and special deductions (line 11 less line 27)		680,901.05
	29. Less: (a) Net operating loss deduction (see instructions — attach schedule)	51,388.86	51,388.86
	(b) Special deductions (Schedule I)		
	30. Taxable income (line 28 less line 29)		629,512.19
TAX	31. TOTAL income tax (Schedule J) FORM 3920		235,004.27
	32. Credits (a) Tax paid with Form 7004 application for extension (attach copy)		
	(b) Payments and credits on 1965 declaration of estimated tax	34,800.00	
	(c) Credit from regulated investment companies (attach Form 2439)		
	(d) Other (specify)		34,800.00
	33. If tax (line 31) is larger than credits (line 32), the balance is TAX DUE. Enter balance here →		200,204.27
	34. If tax (line 31) is less than credits (line 32) Enter the OVERPAYMENT here →		
	35. Enter amount of line 34 you want: Credited on 1966 estimated tax	Refunded	

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct and complete. If prepared by a person other than taxpayer, his declaration is based on all information of which he has any knowledge.

CORPORATE SEAL — Date 9-10-66 — Signature of officer — Title President

Date — Signature of preparer other than taxpayer — GODFREY, LAWRENCE & HORTON — CERTIFIED PUBLIC ACCOUNTANTS — 810 PEACHTREE ST. NE. ATLANTA, GA.

Form 1120 (1965) — Page 2

Schedule A—COST OF GOODS SOLD (See instruction 2)

1. Inventory at beginning of year	498,560.19	5. Total of lines 1 through 4	6,051,055.29
2. Merchandise bought for manufacture or sale	4,227,733.91	6. Less: Inventory at end of year	585,940.62
3. Salaries and wages		7. Cost of goods sold (enter here and on line 2, page 1)	5,465,114.67
4. Other costs (see instructions) (attach schedule)	1,324,761.19		

Schedule C—INCOME FROM DIVIDENDS

1. Name of declaring corporation	2. Domestic corporations taxable under chapter 1, Internal Revenue Code	3. Certain preferred stock of public utilities taxable under chapter 1, Internal Revenue Code	4. Foreign corporations	5. Other corporations
Totals				60,457.48
Total of columns 2, 3, 4, and 5 Schedule				
Add amount includible by shareholder of controlled foreign corporation (attach Form 3646)				
Total (enter here and on line 4, page 1)				60,457.48

Schedule E—COMPENSATION OF OFFICERS (See page 5 of instructions)

1. Name, address, and social security number of officer	2. Title	3. Time devoted to business	4. Percent of corporation stock owned: Common	5. Preferred	6. Amount of compensation	7. Expense account allowances
Schedule						
Total compensation of officers (enter here and on line 12, page 1)					166,090.29	

Schedule F—BAD DEBTS—RESERVE METHOD (See instruction 15)

1. Year	2. Trade notes and accounts receivable outstanding at end of year	3. Sales on account	4. Gross amount added to reserve	5. Amount charged against reserve	6. Reserve for bad debts at end of year
1960					
1961					
1962					
1963					
1964					
1965					

Schedule G—DEPRECIATION (See instruction 22)

Taxpayers using Revenue Procedure 62-21, in column 3 show the cost or other basis of assets held at end of year. Column 2 is not applicable to Revenue Procedure 62-21.

1. Group and guideline class or description of property	2. Date acquired	3. Cost or other basis	4. Depreciation allowed or allowable in prior years	5. Method of computing depreciation	6. Life or rate	7. Depreciation for this year
1. Total additions (do not include items below)						2,000.00
Buildings						
Furniture and fixtures						
Transportation equipment						
Machinery and other equipment						
Other (specify)						
Schedule		1,933,700.03				86,540.02
2. Totals		1,933,700.03				88,540.02
3. Less: Amount of depreciation claimed in Schedule A and elsewhere on return						18,581.32
4. Balance — Enter here and on line 22, page 1						69,958.60

Schedule H—SUMMARY OF DEPRECIATION

	Straight line	Declining balance	Sum of the years-digits	Units of production	Asset guideline system (see instruction 22)	Other (specify)	Total
1. Buildings							
2. Other	43,721.13	42,819.47			2,000.00		88,540.02

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COST OF GOODS MANUFACTURED

IVAN ALLEN COMPANY - ATLANTA, GEORGIA

Year ended June 30, 1966

	Quick-copy	Printing
Inventory - materials, June 30, 1965	$ 5,498.10	$ 65,155.96
Purchases - materials	84,237.23	594,159.68
Freight	12.79	2,605.70
	$ 89,748.12	$ 661,921.34
Less inventory - materials, June 30, 1966	3,946.35	70,194.06
MATERIALS USED	$ 85,801.77	$ 591,727.28
Direct labor	$ 60,566.89	$ 334,288.46
Manufacturing expenses:		
Labor - indirect	$ -	$ 69,809.53
Payroll taxes	1,800.00	9,600.00
Rent - building	-	19,800.00
- equipment	1,790.42	797.25
Heat, power and water	-	13,075.18
Depreciation, equipment	1,253.42	17,327.91
Insurance	-	5,933.68
Taxes, general	-	2,512.02
Maintenance, equipment	3,675.43	16,365.99
Supplies - departmental	5,371.58	3,259.94
- litho	-	3,757.05
- letterpress	-	3,419.26
- composition	2,782.82	5,169.51
- cutting machine	5.68	860.72
- bindery "B"	-	1,517.84
- plate making	9,237.25	7,336.26
- collator	-	3,070.04
- rotary press	-	1,486.66
- camera	-	5,182.57
Outside services	4,183.62	25,650.58
Other	4,429.71	1,914.87
TOTAL MANUFACTURING EXPENSE	$ 34,529.93	$ 217,846.86
TOTAL COST OF GOODS MANUFACTURED	$180,898.59	$1,143,862.60

STATEMENT OF PROPERTY, PLANT AND EQUIPMENT

IVAN ALLEN COMPANY - ATLANTA, GEORGIA

Year ended June 30, 1966

	Assets				Allowance for depreciation				Cost less depreciation
	Balance Jun. 30, 1965	Additions	Disposals	Balance Jun. 30, 1966	Balance Jun.30,1965	Provision	Disposals	Balance Jun.30,1966	Jun. 30, 1966
Rental property:									
Land:									
972 Marietta St.	$ 35,250.00	$ -	$ -	$ 35,250.00	$ -	$ -	$ -	$ -	$ 35,250.00
1740 Peachtree St.	120,000.00	-	-	120,000.00	-	-	-	-	120,000.00
221 Ivy St.	150,000.00	-	-	150,000.00	-	-	-	-	150,000.00
660 Forrest Road	72,000.00	-	-	72,000.00	-	-	-	-	72,000.00
Parking lot	-	56,375.00	-	56,375.00	-	-	-	-	56,375.00
Buildings:									
972 Marietta St.:									
1948 - 3%	81,997.69	-	-	81,997.69	42,228.78	2,459.93	-	44,688.71	37,308.98
Improvements:									
Sprinkler - 1948 - 5%	9,937.00	-	-	9,937.00	7,933.01	496.85	-	8,429.86	1,507.14
Roof - 1955	4,097.84	-	-	4,097.84	4,097.84	-	-	4,097.84	-
1740 Peachtree St.:									
1959 - 5% - (A)	183,078.48	-	-	183,078.48	51,863.46	6,560.75	-	58,424.21	124,654.27
Improvements - 1959 - (A):									
Elevator 10%	15,500.00	-	-	15,500.00	7,674.52	782.55	-	8,457.07	7,042.93
Blacktop - 13.3%	6,900.00	-	-	6,900.00	4,166.71	363.53	-	4,530.24	2,369.76
Electrical - 13.3%	31,000.00	-	-	31,000.00	18,715.82	1,633.80	-	20,349.62	10,650.38
Plumbing, heating and air-conditioning - 13.3%	63,000.00	-	-	63,000.00	37,948.67	3,331.83	-	41,280.50	21,719.50
Carpets, etc. - 20%	9,000.00	-	-	9,000.00	6,876.63	424.67	-	7,301.30	1,698.70
221 Ivy St.:									
1960 - 4%	101,012.25	-	-	101,012.25	22,521.37	4,040.49	-	26,561.86	74,450.39
1963 addition - 4%	444,765.14	-	-	444,765.14	44,704.87	17,790.60	-	62,495.47	382,269.67
1963 roof - 5%	8,156.00	-	-	8,156.00	815.60	407.80	-	1,223.40	6,932.60
1963 waterproofing and sign - 20%	9,190.54	-	-	9,190.54	3,941.77	1,838.11	-	5,779.88	3,410.66
660 Forrest Road:									
1964 - 5% - (A)	124,558.94	-	-	124,558.94	6,227.95	5,916.55	-	12,144.50	112,414.44
	$1,469,443.88	$ 56,375.00	$ -	$1,525,818.88	$259,717.00	$46,047.46	$ -	$305,764.46	$1,220,054.42
Furniture and fixtures:									
Store - 1961-2 25% (A)	$ 249.24	$ -	$ (18.76)(C)	268.00	$ 155.40	$ 28.15	$ -	$ 183.55	$ 84.45
- 1962-3 25% (A)	161.41	-	(12.14)(C)	173.55	81.97	22.90	-	104.87	68.68
Plant - 1958 - 20% (A)	3,562.74	-	-	3,562.74	2,890.29	134.49	-	3,024.78	537.96
Office - 1956 - 20% (A)	4,736.12	-	-	4,736.12	4,164.01	114.42	-	4,278.43	457.69
- 1957 - 20% (A)	388.88	-	-	388.88	329.63	11.85	-	341.48	47.40
- 1959 - 20% (A)	2,790.79	-	30.90(C)	2,759.89	2,264.49	99.08	-	2,363.57	396.32
- 1961 - 20% (A)	3,675.00	-	-	3,675.00	2,320.25	270.95	-	2,591.20	1,083.80
- 1962 - 25% (A)	1,673.01	-	-	1,673.01	1,043.10	157.48	-	1,200.58	472.43
- 1964 - 25% (A)	3,960.00	-	-	3,960.00	1,361.25	649.69	-	2,010.94	1,949.06
- 1965 - 25% (A)	7,439.50	-	-	7,439.50	2,083.06	1,339.11	-	3,422.17	4,017.33
- 1966 - 25% (B)	-	29,107.80	-	29,107.80	-	5,388.47	-	5,388.47	23,719.33
	$ 28,636.69	$ 29,107.80	$ -	$ 57,744.49	$ 16,693.45	$ 8,216.59	$ -	$ 24,910.04	$ 32,834.45

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STATEMENT OF PROPERTY, PLANT AND EQUIPMENT - CONTINUED

IVAN ALLEN COMPANY - ATLANTA, GEORGIA

Year ended June 30, 1966

	Assets				Allowance for depreciation				Cost less depreciation
	Balance Jun. 30, 1965	Additions	Disposals	Balance Jun. 30, 1966	Balance Jun. 30, 1965	Provision	Disposals	Balance Jun. 30, 1966	Jun. 30, 1966
Automobiles and trucks:									
Salesmen:									
1961 Falcon	$ 1,606.78	$ -	$ 1,606.78	$ -	$ 1,562.13	$ -	$ 1,562.13	$ -	$ -
1962 Chevrolet	3,471.22	-	3,471.22	-	3,214.34	-	3,214.34	-	-
1964 Oldsmobile	3,114.68	-	3,114.68	-	2,076.44	-	2,076.44	-	-
1964 Chevrolet - 33 1/3%	2,999.11	-	-	2,999.11	1,497.88	999.70	-	2,497.58	501.53
1965 Cadillac	6,581.09	-	6,581.09	-	2,193.70	-	2,193.70	-	-
1965 Falcon - 33 1/3%	-	2,087.53	-	2,087.53	-	695.84	-	695.84	1,391.69
1966 Chevrolet - 33 1/3%	-	3,303.65	-	3,303.65	-	550.61	-	550.61	2,753.04
1966 Mustang - 33 1/3%	-	1,516.88	-	1,516.88	-	252.81	-	252.81	1,264.07
1966 Chevrolet - 33 1/3%	-	4,387.39	-	4,387.39	-	1,462.46	-	1,462.46	2,924.93
1966 Buick - 33 1/3%	-	4,378.70	-	4,378.70	-	729.80	-	729.80	3,648.90
1966 Cadillac - 33 1/3%	-	6,292.39	-	6,292.39	-	1,048.73	-	1,048.73	5,243.66
1966 Galaxie - 33 1/3%	-	3,486.44	-	3,486.44	-	581.08	-	581.08	2,905.36
Furniture department:									
1960 G.M.C. truck	3,783.11	-	3,783.11	-	3,694.44	-	3,694.44		-
1963 Chevrolet stake - 66 2/3% (A)	1,917.35	-	-	1,917.35	1,633.39	189.30	-	1,822.69	94.66
1964 G.M.C. truck	5,815.29	-	5,815.29	-	3,876.46	-	3,876.46	-	-
1965 Dodge van - 33 1/3%	1,962.10	-	-	1,962.10	654.03	654.03	-	1,308.06	654.04
1966 Dodge van - 33 1/3%	-	2,295.69	-	2,295.69	-	382.62	-	382.62	1,913.07
1966 Dodge truck - 33 1/3%	-	6,016.70	-	6,016.70	-	1,002.78	-	1,002.78	5,013.92
Wrens Hyster - 33 1/3%	-	5,064.55	-	5,064.55	-	844.10	-	844.10	4,220.45
1966 Dodge van - 33 1/3%	-	3,501.70	-	3,501.70	-	583.61	-	583.61	2,918.09
Printing department:									
1962 Chevrolet panel - 66 2/3% (A)	2,230.61	-	-	2,230.61	2,065.51	110.07	-	2,175.58	55.03
1964 Chevrolet S. W. - 33 1/3%	2,457.03	-	-	2,457.03	1,258.48	819.01	-	2,077.49	379.54
Store delivery:									
1962 Ford van	1,476.20	-	1,476.20	-	1,435.19	-	1,435.19	-	-
1962 Ford van 66 2/3% (A)	1,433.31	-	-	1,433.31	1,393.37	26.63	-	1,420.00	13.31
1962 Chevrolet stake	1,772.89	-	1,772.89	-	1,641.55	-	1,641.55	-	-
1962 Chevrolet panel	1,682.13	-	1,682.13	-	1,557.55	-	1,557.55	-	-
1963 Ford van - 66 2/3% (A)	2,012.38	-	-	2,012.38	1,863.63	99.17	-	1,962.80	49.58
1964 Chevrolet panel - 33 1/3%	1,868.96	-	-	1,868.96	934.55	622.98	-	1,557.53	311.43
1964 Ford van - 33 1/3%	2,054.75	-	-	2,054.75	342.45	684.92	-	1,027.37	1,027.38
1965 Chevrolet panel - 33 1/3%	2,358.31	-	-	2,358.31	373.05	786.10	-	1,159.15	1,199.16
1965 Chevrolet panel - 33 1/3%	2,168.93	-	-	2,168.93	361.50	722.97	-	1,084.47	1,084.46
1965 Chevrolet panel - 33 1/3%	1,836.34	-	-	1,836.34	306.06	612.12	-	918.18	918.16
1965 Chevrolet panel - 33 1/3%	-	2,028.29	-	2,028.29	-	338.05	-	338.05	1,690.24
1965 Chevrolet panel - 33 1/3%	-	1,889.55	-	1,889.55	-	314.93	-	314.93	1,574.62
1966 Chevrolet truck - 33 1/3%	-	3,481.35	-	3,481.35	-	580.22	-	580.22	2,901.13
Quick-Copy department:									
1965 Ford - 33 1/3%	1,392.00	-	-	1,392.00	232.00	464.00	-	696.00	696.00
	$ 55,994.57	$ 49,730.81	$29,303.39	$ 76,421.99	$ 34,167.70	$16,158.64	$21,251.80	$ 29,074.54	$ 47,347.45

STATEMENT OF PROPERTY, PLANT AND EQUIPMENT - CONCLUDED

IVAN ALLEN COMPANY - ATLANTA, GEORGIA

Year ended June 30, 1966

	Assets				Allowance for depreciation				Cost less depreciation
	Balance Jun. 30, 1965	Additions	Disposals	Balance Jun. 30, 1966	Balance Jun. 30, 1965	Additions	Disposals	Balance Jun. 30, 1966	Jun. 30, 1966
Machinery and equipment:									
Printing plant:									
6 1/4%:									
1947	$ 11,899.60	$ -	$ -	$ 11,899.60	$ 11,699.60	$ -	$ -	$ 11,699.60	$ 200.00
1947	29,000.00	-	-	29,000.00	28,500.00	-	-	28,500.00	500.00
1950	455.00	-	455.00	-	440.82	14.18	455.00	-	-
1951	12,875.20	-	-	12,875.20	11,668.15	804.70	-	12,472.85	402.35
20% (A):									
1954	42,135.00	-	-	42,135.00	38,696.59	687.68	-	39,384.27	2,750.73
1956	16,600.00	-	-	16,600.00	14,594.70	401.06	-	14,995.76	1,604.24
1957	3,858.00	-	-	3,858.00	3,275.46	116.50	-	3,391.96	466.04
1958	26,527.99	-	-	26,527.99	21,520.99	1,001.40	-	22,522.39	4,005.60
1961	10,225.00	-	-	10,225.00	5,513.32	942.34	-	6,455.66	3,769.34
1963	42,388.65	-	-	42,388.65	17,014.98	5,074.73	-	22,089.71	20,298.94
1964	38,414.50	-	-	38,414.50	12,196.06	5,243.69	-	17,439.75	20,974.75
1965	9,012.50	-	-	9,012.50	1,362.14	1,530.07	-	2,892.21	6,120.29
1966	-	13,865.55	-	13,865.55	-	1,386.56	-	1,386.56	12,478.99
12 1/2% - 1966	-	2,000.00	-	2,000.00	-	125.00	-	125.00	1,875.00
Quick-Copy department:									
20% (A):									
1956	2,687.18	-	-	2,687.18	2,281.43	81.15	-	2,362.58	324.60
1956	3,173.42	-	-	3,173.42	2,790.07	76.67	-	2,866.74	306.68
1957	1,372.00	-	-	1,372.00	1,164.83	41.43	-	1,206.26	165.74
1958	2,856.74	-	-	2,856.74	2,317.54	107.84	-	2,425.38	431.36
1966	-	4,823.34	-	4,823.34	-	482.33	-	482.33	4,341.01
	$ 253,480.78	$ 20,688.89	$ 455.00	$ 273,714.67	$175,036.68	$18,117.33	$ 455.00	$192,699.01	$ 81,015.66
	$1,807,555.92	$155,902.50	$29,758.39	$1,933,700.03	$485,614.83	$88,540.02	$21,706.80	$552,448.05	$1,381,251.98

(A) - Declining balance method

(B) - Additional first year depreciation taken on first $10,000.00

(C) - Reclassifications

STATEMENT OF RETAINED EARNINGS

IVAN ALLEN COMPANY - ATLANTA, GEORGIA

Year ended June 30, 1966

Retained earnings, June 30, 1965			$2,200,184.77
Add:			
Net income for the year ended June 30, 1966		$450,501.83	
Excess of fair market value over cost of securities donated to Allen Foundation, Inc. as of 6-10-66:			
Fair market value:			
149 shares 3 M Corp.	$11,230.98		
165 shares Southern Airways	2,805.00		
50 shares Xerox Corp.	12,500.00		
	$26,535.98		
Cost, prior to 1960:			
149 shares 3 M Corp.	$ 3,045.82		
165 shares Southern Airways	600.00		
50 shares Xerox Corp.	240.00		
	$ 3,885.82	22,650.16	473,151.99
			$2,673,336.76
Deduct:			
Political contribution		$ 100.00	
10% stock dividend		262,822.75	
Cash dividend		50,267.49	313,190.24
RETAINED EARNINGS - JUNE 30, 1966			$2,360,146.52

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Form **2220**

U.S. Treasury Department — Internal Revenue Service

STATEMENT RELATING TO UNDERPAYMENT OF ESTIMATED INCOME TAX BY CORPORATIONS

(To be filed with your income tax return)

1965

Name of Corporation: IVAN ALLEN COMPANY

Employer Identification No.: 58-0136820

Address (Number, street, city, State, and Postal ZIP code): BOX 1712 ATLANTA, GEORGIA 30301

Computation of Underpayments (See instructions on reverse side)

By filling in lines 1 through 4 below you can determine whether by each of four installment dates the corporation paid at least 47½, 47½, 25%, and 25%, respectively, of 70% of the tax liability shown on its return (less the sum of any personal holding company tax and $100,000). If so, it will not be necessary to file this form.

1. (a) Tax (line 31, page 1, Form 1120)			$ 235,004.95
(b) Tax under section 541 of the Internal Revenue Code (from Schedule 1120 PH) included in line 1(a)	$		
(c) Statutory exemption		100,000	$ 100,000.00
(d) Balance (line 1(a) less sum of lines 1(b) and 1(c))			$ 135,004.95
(e) 70 percent of line 1(d)			$ 94,503.45

Due Dates of Installments	(a) Apr. 15	(b) June 15	(c) Sept. 15	(d) Dec. 15
	10-15-65	12-15-65	3-15-66	6-15-66
2. Enter 47½% of line 1(e) in columns (a) and (b), and 25% of line 1(e) in columns (c) and (d)	$ 3,780.13	$ 3,780.13	$ 23,625.86	$ 23,625.86
3. (a) Amount paid for each period	-	3,200.00	15,800.00	15,800.00
(b) Overpayment of previous installment [1]	XXXXXXX			
(c) Total of lines 3 (a) and (b)	-	3,200.00	15,800.00	15,800.00
4. Underpayment (or overpayment) (line 2 less line 3(c))	$ 3,780.13	$ 580.13	$ 7,825.86	$ 7,825.86

[1] An overpayment of an installment on line 4 in excess of all prior underpayments should be applied as a credit against the next installment.

There is no additional charge imposed on an underpayment shown on line 4 for any installment date if by that date the corporation made the minimum payment determined under any of the following exceptions.

Exception 1.—An amount equal to the tax shown on the return filed for the preceding taxable year reduced by $100,000. The preceding year's return must cover a period of 12 months and must show a tax liability.

Exception 2.—An amount equal to the tax computed at the rates applicable to the taxable year but otherwise on the basis of the facts shown on the corporation's return for, and the law applicable to, the preceding taxable year.

Exception 3.—An amount equal to 70 percent of the tax for the taxable year computed by placing on an annualized basis the taxable income—(1) for the first 3 months of the taxable year, in the case of the installment required to be paid in the 4th month, (2) for the first 3 months or for the first 5 months of the taxable year (whichever results in no additional charge), in the case of the installment required to be paid in the 6th month, (3) for the first 6 months or for the first 8 months of the taxable year (whichever results in no additional charge), in the case of the installment required to be paid in the 9th month, and (4) for the first 9 months or for the first 11 months of the taxable year (whichever results in no additional charge), in the case of the installment required to be paid in the 12th month of the taxable year.

The taxable income shall be placed on an annualized basis by first multiplying the taxable income for the period by 12, and then dividing the resulting amount by the number of months in the period (3, 5, 6, 8, 9, or 11, as the case may be).

For the purpose of Exceptions 2 and 3 above, the term "tax" means the excess of the tax imposed by section 11, 1201(a), or subchapter L of chapter 1, whichever is applicable, over the sum of $100,000 and any credits against tax.

Check below which exception, if any, applies for each underpaid instalment. **(Attach schedule showing computation.)**

EXCEPTION 1		EXCEPTION 2		EXCEPTION 3	
Apr. 15 ☐	June 15 ☐	Apr. 15 ☐	June 15 ☐	Apr. 15 ☒	June 15 ☒
Sept. 15 ☐	Dec. 15 ☐	Sept. 15 ☐	Dec. 15 ☐	Sept. 15 ☒	Dec. 15 ☒

Computation of Additional Charge

If an underpayment of estimated tax is shown on line 4, above, for an installment and an exception is not applicable, the additional charge should be computed by completing the portion of this schedule applicable to the instalment(s).

Due Dates of Installments	Apr. 15	June 15	Sept. 15	Dec. 15
5. Amount of underpayment (from line 4, above)	$	$	$	$
6. Date of payment or March 15, 1966, whichever is earlier [1]				
7. Number of days from due date of installment to the date shown on line 6, above				
8. Additional charge (6 percent per year on the amount on line 5 for the number of days shown on line 7)	$	$	$	$
9. Total of amounts on line 8. (On page 1, Form 1120, show this amount in the bottom margin as "additional charge" and increase line 33 or decrease line 34 accordingly)				$

[1] A payment of estimated tax on any installment date shall be considered a payment of any previous underpayment only to the extent such payment exceeds the amount of the instalment as computed on line 2. If the corporation made more than one payment for a given installment, attach schedule showing the computation for each payment.

TAX SCHEDULE

IVAN ALLEN COMPANY - ATLANTA, GEORGIA

Year ended June 30, 1966

COMPUTATION - EXCEPTION 3 - FORM 2220 - FEDERAL

	10-15-65	12-15-65	3-15-66	6-15-66
Income - 3 months	$ 55,315			
- 5 months		$169,720		
- 6 months			$208,592(A)	
- 8 months			310,978	
- 11 months				$394,946
Income annualized	$221,260	$407,328	$417,184(A)	$427,857
Dividends received credit	7,353	18,019	27,253	51,388
TAXABLE INCOME	$213,907	$389,309	$389,931	$376,469
Tax (1562 corp.)	$ 97,675	$161,868	$182,167	$175,705
Less investment credit	-	-	3,486	3,486
	$ 97,675	$161,868	$178,681	$172,219
Less $100,000	100,000	100,000	100,000	100,000
	$ -	$ 61,868	$ 78,681	$ 72,219
70%	$ -	$ 57,308	$ 55,077	$ 50,553
5.333%	$ 3,056			
26.333%		$ 14,504	$ 13,312	
Payments	$ 3,200	$ 15,800	$ 15,800	
Carryover	-	144	1,440	
	$ 3,200	$ 15,944	$ 17,240	
(Excess) payments	$ (144)	$ (1,440)	$ (3,928)	

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FORM 3920

U.S. Treasury Department - Internal Revenue Service

TAX COMPUTATION SCHEDULE FOR COMPONENT MEMBERS OF CONTROLLED CORPORATE GROUP—1965

Attach to Your Tax Return

or other taxable year beginning July 1, 1965, ending June 30, 19 66

(PLEASE TYPE OR PRINT)

Name and address

IVAN ALLEN COMPANY - ATLANTA, GEORGIA

PART I—TAX COMPUTATION

1. (a) Taxable Income (Form 1120, page 1, line 30; Form 1120-F, page 3, line 30; Form 1120-L, page 1, line 4; Form 990-T, page 2, line 31)		629,512.19
(b) Surtax exemption ($25,000, amount apportioned under section 1561, or line 1(a), whichever is lesser)		
(c) Balance (line 1(a) less line 1(b))		
2. (a) 22 percent of line 1(a)		
(b) 26 percent of line 1(a)		
(c) If multiple surtax exemption is elected under section 1562, enter 6 percent of line 1(b)		
3. Income tax (line 2, or line 10 of alternative tax computation, whichever is lesser)		238,490.72 Alt
4. Foreign tax credit (attach Form 1118)		
5. Balance (line 3 less line 4)		238,490.72
6. Investment credit (attach Form 3468)		3,485.77
7. Balance of income tax (line 5 less line 6)		235,004.95
8. Tax under section 541 of the Internal Revenue Code (from Schedule 1120 PH)		
9. Tax from recomputing prior year investment credit (attach statement)		
10. Total tax—Add lines 7, 6, and 9. Enter here and on (Form 1120, page 1, line 31; Form 1120-F, page 1, line 1; Form 1120-L, page 1, line 12; Form 990-T, page 1, line 15)		235,004.95

PART II—ALTERNATIVE TAX COMPUTATION

1. Taxable income (line 1(a), Part I)	629,512.19
2. Net long-term capital gain reduced by any net short-term capital loss	255,109.22
3. Line 1 less line 2	374,402.97
4. Surtax exemption ($25,000, amount apportioned under section 1561, or line 3, whichever is lesser)	25,000.00
5. Line 3 less line 4	349,402.97
6. 25 percent of line 2	63,777.30
7. 22 percent of line 3	82,368.65
8. 26 percent of line 5	90,844.77
9. If multiple surtax exemption is elected under section 1562, enter 6 percent of line 4	1,500.00
10. Total of lines 6 through 9. If applicable, enter here and on line 3, Part I, and write "alt" in the margin to the right of the entry	238,490.72

e39—10—78559-1

INSTRUCTIONS

Taxpayers Required To File Form 3920.—Component members of a controlled group of corporations (1) filing a consolidated return, (2) apportioning a single $25,000 surtax exemption under section 1561, (3) electing to claim multiple surtax exemptions under section 1562, or (4) otherwise coming within the provisions of section 1561 or 1562, must file Form 3920 with their income tax return. Form 3920 shall be used to compute the tax in lieu of the tax computation schedule on Form 1120, Form 1120-F, Form 1120-L, and Form 990-T.

Surtax Exemption for Component Members of a Controlled Group of Corporations.—Under section 1561, if a corporation is a component member of a controlled group of corporations on December 31 of its taxable year, the surtax exemption shall be—

(1) $25,000 divided by the number of component members on such December 31, or

(2) If all members consent to an apportionment plan, their portion of $25,000 determined in accordance with the plan. The sum of the amounts so apportioned shall not exceed $25,000. See section 1561 and the regulations thereunder for time and manner of making the consent.

The surtax exemption for a component member which has a short taxable year which does not include a December 31 shall be $25,000 divided by the number of component members in the group on the last day of such taxable year.

If the surtax exemption is determined under (1) or (2) above, the additional 6-percent tax under section 1562 does not apply.

Election of Multiple Surtax Exemptions by a Controlled Group of Corporations.—Subject to the provisions of section 1562, a controlled group of corporations may elect, with respect to a specified December 31, to have each of its component members claim a separate $25,000 surtax exemption without having to divide equally or apportion one $25,000 surtax exemption among all component members. Such election is valid only if each component member of the group on such December 31 and each other component member of the group on any succeeding December 31 before the day on which the election is made, consents to such election. See section 1562 and the regulations thereunder for provisions relating to such consent. An election, once made, continues in effect until terminated in the manner provided in section 1562(c). If the group elects to claim multiple surtax exemptions, each component member must pay an additional tax of 6 percent on its first $25,000 taxable income. If you are the only component member of the controlled group which has taxable income or if your surtax exemption has been disallowed, see section 1562(b)(1).

U.S. GOVERNMENT PRINTING OFFICE: 1965—O-772-168

Controlled Group of Corporations.—In general, the term "controlled group of corporations" means any group of—

(1) Parent-subsidiary controlled group.—One or more chains of corporations connected through stock ownership with a common parent corporation if at least 80 percent of the voting power or at least 80 percent of the value of all stock of each of the corporations (except the common parent corporation) is owned by one or more of the other corporations; and if the common parent corporation owns at least 80 percent of the voting power or at least 80 percent of the value of all stock of at least one of the other corporations, excluding, in computing such voting power or value, stock owned directly by such other corporations.

(2) Brother-sister controlled group.—Two or more corporations if at least 80 percent of the voting power or at least 80 percent of the value of all stock of each of the corporations is owned by one person who is an individual, estate, or trust.

(3) Combined group.—Three or more corporations each of which is a member of a group of corporations described in (1) or (2) above, and one of which is a common parent corporation included in a group of corporations described in (1) above, and also is included in a group of corporations described in (2) above.

(4) Certain insurance companies.—Two or more insurance companies subject to taxation under section 802 which are members of a controlled group of corporations described in (1), (2), or (3) above. Such insurance companies shall be treated as a controlled group of corporations separate from any other corporations which are members of the controlled group described in (1), (2), or (3) above.

For the definition of the term "stock" and for rules relating to the determination of stock ownership, see sections 1563(c) and (d).

Component Members.—In general, a corporation is a component member of a controlled group of corporations on a December 31 of any taxable year if the corporation is (1) a member of the controlled group on the December 31 included in such year and is not treated as an excluded member under section 1563(b)(2) and the regulations thereunder, or (2) is not a member of the controlled group on the December 31 but is treated as an additional member under section 1563(b)(3) and the regulations thereunder.

Alternative Tax.—If the net long-term capital gain exceeds the net short-term capital loss, or if there is only a long-term capital gain, the alternative tax should be computed to determine if it produces a lesser tax.

e39—10—78559-1

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FORM 3468
U.S. Treasury Department
Internal Revenue Service

COMPUTATION OF INVESTMENT CREDIT—1965

or taxable year beginning July 1, 1965, ending June 30, 19 66

TO BE ATTACHED TO YOUR TAX RETURN

Name (as shown on page 1 of your tax return)
IVAN ALLEN COMPANY

Address (number and street)
BOX 1712

City or town, and State
ATLANTA, GEORGIA 30301

1. Qualified investment in new or used property

NOTE: Include your share of investment in property by a partnership, estate, trust, small business corporation, or lessor.

Type of property	Line	(1) Life years	(2) Cost or basis	(3) Applicable percentage	(4) Qualified investment (column 2 x column 3)
NEW PROPERTY	(a)	4 or more but less than 6		33⅓	
	(b)	6 or more but less than 8		66⅔	
	(c)	8 or more	47,796.69	100	47,796.69
USED PROPERTY (for dollar limitation see instructions)	(d)	4 or more but less than 6		33⅓	
	(e)	6 or more but less than 8		66⅔	
	(f)	8 or more	2,000.00	100	2,000.00

2. Total qualified investment—add lines 1(a) through (f)	49,796.69
3. Tentative investment credit—7% of line 2 (for public utility property, enter 3% of line 2)	3,485.77
4. Carryback and carryover of unused credit(s) (attach statement)	
5. TOTAL (line 3 plus line 4)	3,485.77

COMPUTATION OF TAX FOR PURPOSES OF LIMITATION

6. (a) Individuals (enter amount from line 12, page 1, Form 1040)		
(b) Estates and trusts (enter amount from line 25 or 26, page 1, Form 1041)		238,490.72
(c) Corporations (enter amount from line 5, Tax Computation Schedule, Form 1120)		
7. Individuals, estates and trusts:		
Less: (a) Foreign tax credit		
(b) Dividends received credit		
(c) Retirement income credit		
(d) Total (add lines (a), (b), and (c))		
8. Balance (line 6 less line 7(d))		238,490.72

LIMITATION BASED ON AMOUNT OF TAX

(Married persons filing separately, affiliated groups, estates and trusts—see instructions)

9. (a) Enter amount on line 8 or $25,000, whichever is lesser	25,000.00
(b) If line 8 is in excess of $25,000, enter 25% of the excess	53,372.68
(c) Total (add lines (a) and (b))	78,372.68
10. Investment credit (enter amount on line 5 or 9(c), whichever is lesser)	3,485.77

SCHEDULE A

If any part of your investment in 1 above was made by a partnership, estate, trust, small business corporation, or lessor complete the following:

Name (Partnership, estate, trust, etc.)	Address	Property New	Property Used	Life years
		$	$	

16—78612-1

GENERAL INSTRUCTIONS

A. Who Must File.—Any individual, estate, trust, or corporation claiming an investment credit against its tax must attach this form to its income tax return. Partnerships and small business corporations are not required to file this form because the credit is claimed by the partner or shareholder. However, partnerships and small business corporations must attach a statement to their returns showing the allocation of investment to the partners or shareholders by amount, type and life of property as shown in item 1 of this form. Estates and trusts which apportion the investment between the estate or trust and the beneficiaries should in addition to filing this form attach a statement showing the allocation of the investment among the beneficiaries.

B. When Allowed.—A credit is allowed against your tax for investment in certain depreciable property having an estimated useful life of 4 years or more. The credit is allowed for the first year property is placed in service, even though under the depreciation convention used you may not be able to claim a deduction for depreciation on the property until the following year.

C. Property Defined.—The investment credit is applicable to (a) tangible personal property, (b) real property (except for buildings and their structural components) if used as an integral part of manufacturing, production or extraction, or used as a research or storage facility in connection with these activities, and (c) elevators and escalators, if their construction, reconstruction, or erection is completed by the taxpayer after June 30, 1963, or if they are acquired after June 30, 1963, and their original use commences with the taxpayer and commences after such date.

The investment credit is not applicable to (1) certain property which is used predominantly outside the United States (2) property used for lodging or in connection with furnishing lodging, except (a) property used in certain commercial facilities located therein (such as a restaurant) or (b) property used by a hotel or motel. (3) property used by a tax-exempt organization (other than in a business to which the unrelated business income tax applies). (4) property used by governmental units. (5) livestock (including racehorses)

D. Election for Leased Property.—A lessor may elect to treat an investment in new property as if made by the lessee instead of the lessor. If the lessor makes this election, then the lessee is treated as if he had acquired the property (see section 48(d) for determination of basis).

Where a lessor makes an election with respect to leased property, such election must be made in accordance with section 48(d) and the regulations thereunder.

E. Replacement Property.—Where insured property is lost or destroyed as a result of a casualty or is stolen, reinvestment of the insurance proceeds in replacement property may not be eligible for investment credit.

F. Disposition of Property.—Where property is disposed of prior to the life used in computing the investment credit, the tax for the year in which the property is so disposed of must be increased by the difference between the credit taken on such property and the credit which would have been allowed had the actual life been used. Such increase should be reported on the line specified on returns other than Form 1040. If you are filing Form 1040, add this amount to the tax to be reported on line 14, page 1, and also show the increase as a separate amount identified as "Inv. Cr." to the left of the total tax.

G. Limitations With Respect to Certain Persons.—In the case of (1) mutual savings banks, building and loan associations and cooperative banks, (2) a regulated investment company or a real estate investment trust subject to taxation under Subchapter M, and (3) a cooperative organization described in section 1381(a), the qualified investment and the $25,000 limitation shall equal such person's ratable share of such items in accordance with section 46(d)(2).

H. Carryback and Carryover of Unused Credits.—If the amount of the investment credit for any taxable year exceeds the limitation, the excess shall be an investment credit carryback to each of the 3 preceding taxable years and an investment credit carryover to each of the 5 succeeding taxable years and shall be added to the amount allowable as a credit for such years. A claim for refund based upon an unused investment credit carryback should be made on Form 843 or by filing an amended return for the year to which the unused credit is carried.

I. Basis and Cost.—The credit for new property applies to the basis of the property. The credit for used property applies to the cost of the property. The cost (of used property) does not include the basis of any property traded in. No adjustment for additional first-year depreciation or salvage value is required.

SPECIFIC INSTRUCTIONS

Line 1. New Property.—Enter the basis of property as described in General Instructions C and I placed in service during the taxable year. In the case of property constructed, reconstructed or erected by you, enter only that portion of the basis which is properly attributable to construction, reconstruction or erection after December 31, 1961.

Used Property.—Enter the cost (subject to dollar limitation below) of used property placed in service during the taxable year. See General Instruction I above.

Dollar Limitation on Used Property.—In general, the amount of used property taken into account may not exceed $50,000. In the case of a husband and wife filing separate returns, and each has used property taken into account on their returns, the amount may not exceed $25,000. In the case of a partnership, the $50,000 limitation shall apply with respect to the partnership and with respect to each partner. In the case of affiliated groups, the $50,000 limitation shall be reduced for each member of the group by apportioning $50,000 among the members of such group in accordance with their respective amounts of used property which may be taken into account.

Estates and Trusts.—In the case of an estate or trust the amount of the investment is apportioned between the estate or trust and the beneficiaries on the basis of the income of the estate or trust allocable to each.

Line 6. Individuals and corporations filing forms other than Forms 1040 and 1120, use the tax figure shown on your return which is comparable to the figure to be used by a taxpayer using Form 1040 or 1120.

Line 9. Limitation Based on Amount of Tax.—In the case of a husband and wife filing separate returns and both have qualified investments, the amount specified on lines 9(a) and (b) shall be $12,500 instead of $25,000. In the case of affiliated groups, the $25,000 specified on lines 9(a) and (b) shall be reduced for each member of the group by apportioning the $25,000 among the members of such group. In the case of an estate or trust the $25,000 limitation specified on lines 9(a) and (b) shall be reduced to an amount which bears the same ratio to $25,000 as the amount of qualified investment allocated to the estate or trust bears to the entire qualified investment.

☆☆☆ U.S. GOVERNMENT PRINTING OFFICE: 1965—O-780-593

16—78612-1

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SCHEDULE D (Form 1120)

U.S. Treasury Department—Internal Revenue Service

GAINS AND LOSSES FROM SALES OR EXCHANGES OF PROPERTY

1965

Name and address

IVAN ALLEN COMPANY - ATLANTA, GEORGIA

PART I.—GAIN FROM DISPOSITION OF DEPRECIABLE PROPERTY UNDER SECTIONS 1245 AND 1250—Assets Held More Than 6 Months—Where double headings appear, use the first heading for section 1245 and the second heading for section 1250.

a. Kind of property (if necessary, attach statement of descriptive details not shown below)	b. Date acquired (mo., day, yr.)	c. Date sold (mo., day, yr.)	d. Gross sales price	e. Cost or other basis, plus cost of subsequent improvements (if not purchased, attach explanation) and expense of sale
1. 1954 Oldsmobile	11-21-54	12-17-64	1,850.00	3,114.58

f. Depreciation allowed or allowable since acquisition (attach schedule)		g. Adjusted basis (e less sum of f-1 and f-2)	h. Total gain (d less g)	i. Ordinary gain (lesser of f-1 or h) OR (see instructions)	j. Other gain (h less i)
f-1. Prior to January 1, 1961 OR Prior to January 1, 1954	f-2. After December 31, 1961 OR After December 31, 1963				
	2,076.24	1,038.24	811.76	811.76	
2. Total ordinary gain. Enter here and on line 11 or 4, whichever is applicable, gain from Part I				811.76	
3. Total other gain. Enter here and on line 4 or 11, whichever is applicable, gain from Part I					

PART II.—SALE OR EXCHANGE OF PROPERTY UNDER SECTION 1231

a. Kind of property (if necessary, attach statement of description)	b. Date acquired (mo., day, yr.)	c. Date sold (mo., day, yr.)	d. Gross sales price	e. Depreciation allowed (or allowable since acquisition) (attach schedule)	f. Cost or other basis, plus cost of subsequent improvements (if not purchased, attach explanation) and expense of sale	g. Gain or loss (d plus e less f)
4.						
5. Total (Gain, enter on line 9 if long-term or line 11, if short-term, as gain from Part II.)						

PART III.—CAPITAL ASSETS

Short-Term Capital Gains and Losses—Assets Held Not More Than 6 Months

6.						
7. Unused capital loss carryover (attach statement)						
8. Total of short-term capital gains and losses. Combine lines 6 and 7. Enter net short-term capital gain or loss						

Long-Term Capital Gains and Losses—Assets Held More Than 6 Months

9.						
300 Ivan Allen - Huntsville	4-21-61	3-2-65	4,974.00		3,000.00	1,974.00
400 Ivan Allen - Perry	6-30-59	3-26-65	32,795.00		28,604.55	4,191.45
1,000 Xerox Corp.	1-20-61	6-30-65	262,425.07		13,982.31	248,443.76
10. Total of long-term capital gains and losses. Combine lines 9 and 10. Enter net long-term capital gain or loss						255,109.22

PART IV.—PROPERTY OTHER THAN CAPITAL ASSETS

11. Part I						811.76
12. Total net gain for year. Enter here and on line 13						811.76

PART V.—TOTAL SCHEDULE D GAINS AND LOSSES

13. Enter the excess of net short-term capital gain (line 3) over net long-term capital loss (line 10)		
14. Enter the excess of net long-term capital gain (line 10) over net short-term capital loss (line 9)		255,109.22
15. Net gain (loss) from property other than capital assets (line 12)		811.76
16. Total (Lines 13, 14, and 15). Enter here and on Form 1120, page 1, line 9		255,920.98

Alternative Tax Computation

(Component members of controlled corporate group use Form 3930 to compute your tax)

17. Taxable income (line 30, page 1, Form 1120)		
18. Net long-term capital gain reduced by any net short-term capital loss (line 14)		
19. Line 17 minus line 18		
20. If amount of line 19 is		
(a) **Not over $25,000**—Enter 22 percent of line 19		
(b) **Over $25,000**—Enter 48 percent of line 19		
Subtract $6,500 and enter difference	6,500.00	
21. 25 percent of line 18		
22. Alternative tax (line 20 plus line 21). If applicable, enter on line 3, Schedule J, Form 1120, and write "alt." in the margin to the right of the entry		

INSTRUCTIONS

(References are to the Internal Revenue Code)

Gains and losses from sales or exchanges of capital assets and other property.—Report sales or exchanges of capital assets and sales or exchanges of property other than capital assets in Schedule D. Every sale or exchange of property, even though no gain or loss may be indicated, must be reported in detail.

Losses from sales or exchanges of capital assets shall be allowed only to the extent of gains from such sales or exchanges. However, the amount of a net capital loss sustained in any taxable year may be carried over to each of the five succeeding taxable years and to the extent such loss is not offset by gains or losses in such years, to each of the ten succeeding taxable years. A net capital loss shall be treated in each such succeeding taxable year as a short-term capital loss to the extent that it is not offset by gains from sales or exchanges of capital assets or by taxable income, as provided in section 1212(a), against any net capital gains of any taxable year intervening between the taxable year in which such net capital loss was sustained and the taxable year to which carried.

Definition of capital assets. The term "capital assets" means property held by the taxpayer (whether or not connected with its trade or business) but does not include (1) stock in trade of the taxpayer or other property of a kind which would properly be included in the inventory of the taxpayer if on hand at the close of the taxable year, or property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business, or (2) property used in the trade or business, of a character which is subject to the allowance for depreciation provided in section 167, or real property used in the trade or business of the taxpayer, or (3) a patent, invention, model or design (whether or not patented), a copyright, a literary, musical, or artistic composition, or similar property, or a letter or memorandum or similar property, held by a taxpayer whose trade or business is (a) personal services, or (b) the preparation of property described in (1) above, or (4) accounts or notes receivable acquired in the ordinary course of trade or business for services rendered or from the sale of property described in (1) above, or (5) a publication of the United States Government (including the Congressional Record) which is received from the Government otherwise than by purchase at the price at which it is offered for sale to the public, or (6) any commodity derivative financial instrument held by a commodity derivatives dealer, unless it is established to the satisfaction of the Secretary or his delegate that such instrument has clearly been identified by the dealer before the close of the day on which it was acquired, originated, or entered into (or such other time as the Secretary or his delegate may by regulations prescribe) as not being a capital asset in the hands of the taxpayer.

Losses on securities becoming worthless. [illegible]

Losses not allowable. [illegible]

Gains from section 1245 or 1250 property held more than 6 months (Part I).—(*Report any gain from such property held for 6 months or less in Part IV.*) Except as provided below, section 1245 property means depreciable (a) personal property (other than livestock) including intangible personal property; (b) tangible real property (except for buildings and their structural components) used as an integral part of manufacturing, production, or extraction, or of furnishing transportation, communications, electrical energy, gas, water, or sewage disposal services, or used as a research or storage facility in connection with these activities; and (c) elevators or escalators.

Except as provided below, section 1250 property means depreciable real property (other than section 1245 property).

See sections 1245(b) and 1250(d) for exceptions and limitations involving: (a) charitable transfers, (b) certain tax free transactions, (c) like kind exchanges, involuntary conversions, and (d) sales or exchanges to effectuate FCC policies and exchanges to comply with SEC orders.

Column f of Part I.—In computing depreciation allowed or allowable for property acquired after June 30, 1962, enter in column f-1 depreciation prior to July 1, 1963, and in column f-2 depreciation after June 30, 1963.

Column i of Part I, section 1250 property only.—If held for more than 6 months but not more than 1 year enter the smaller of

(a) column h, or
(b) column f-2.

If held for more than 1 year, enter the result of multiplying the smaller of

(a) column h, or
(b) column f-2 less the amount of depreciation computed for the same period using the straight line method

by the percentage (not less than zero) obtained by subtracting from 100 the number of full months which elapsed between the date of acquisition and the date of disposition of the property, and dividing the result by 100. Where qualifying improvements have been made within the preceding 10 years, see section 1250(g).

Gain on sales by a "controlled" corporation.—In the case of a transfer [illegible] of property between an [illegible] 80 percent in value of the [illegible] and [illegible] any gain recognized [illegible] shall be treated as [illegible] property which is neither a [illegible] section 1231, if such property [illegible] under section 1239.

Installment sales. [illegible] to report any gain on the installment method [illegible] year of sale to [illegible] section 453.

For treatment [illegible] payments as "unstated interest" [illegible] section 483.

(Instructions continued on reverse of duplicate)

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TAX SCHEDULE - 58-0136820

IVAN ALLEN COMPANY - ATLANTA, GEORGIA

Year ended June 30, 1966

DIVIDENDS RECEIVED		
Xerox		$ 7,241.00
3M Company		171.36
Southern Airways		45.12
Ivan Allen Company	- Huntsville, Ala.	7,200.00
	- Athens, Tenn.	4,000.00
	- Augusta, Ga.	8,000.00
	- Gainesville, Ga.	5,850.00
	- Columbus, Ga.	3,000.00
	- Rome, Ga.	15,950.00
	- Greenville, S. C.	9,000.00
		$ 60,457.48
OTHER INCOME		
Discount earned		$ 97,127.74
Vendor's compensation, sales tax		2,597.84
Purchase charges to subsidiaries		119,952.86
		$219,678.44

COMPENSATION OF OFFICERS

	Compensation	Expenses
Ivan E. Allen, Chairman	$ 12,525.16	$ -
W. H. Glenn, President	33,025.00	4,223.96
H. C. Jones, Exec. Vice-President	26,325.00	2,343.48
W. F. Floyd, Jr., Sec. - Treas.	24,358.34	1,358.28
J. H. Carnes, Vice-President	25,506.79	1,824.34
W. D. Harris, Vice-President	26,325.00	3,351.99
J. H. Murphy, Vice-President	18,025.00	3,469.88
	$166,090.29	

TAX SCHEDULE - 58-0136820

IVAN ALLEN COMPANY - ATLANTA, GEORGIA

Year ended June 30, 1966

TAXES		
City, state and county	$43,254.21	
Intangibles	1,629.91	
Domestic corp.	1,000.00	
Business licenses	966.81	
Automobile and truck	325.40	
Corporation registration	1.00	
Pay roll	66,139.90	$113,317.23
Less taxes charged to cost of sales		13,912.02
		$ 99,405.21
GEORGIA		
Georgia income tax - current year	$26,028.95	
- prior years	54.48	26,083.43
		$125,488.64
CONTRIBUTIONS		
Atlanta Arts Festival		$ 240.40
Empty Stocking fund		500.00
Chattanooga 150 fund		100.00
Booster Club		50.00
United Appeal		5.95
Buckhead Lions Club		70.00
Junior League		75.00
North Springs Board of Education		25.00
Christien City		100.00
West End Boys Club		50.00
Allen Foundation, Inc.:		
149 shares 3M Co. - Cost, prior to 1960, $3,045.82 fair market value 6-10-66	$11,230.98	
165 shares Southern Airways - cost, prior to 1960, $600.00; fair market value 6-10-66	2,805.00	
50 shares Xerox Corp. - cost 1961 $240.00; fair market value 6-10-66	12,500.00	26,535.98
		$ 27,752.33
Add contribution carryover from 6-30-65 - federal		1,659.10
		$ 29,411.43

TAX SCHEDULE - 58-0136820

IVAN ALLEN COMPANY - ATLANTA, GEORGIA

Year ended June 30, 1966

OTHER DEDUCTIONS

Travel and entertainment	$ 47,281.39
Telephone and telegraph	31,784.80
Postage	17,622.95
Dues and subscriptions	31,806.27
Sales promotion	4,423.05
Stationery and supplies	59,432.20
Heat, power and water	18,805.53
Truck and delivery	40,339.91
Amortization, leaseholds	3,267.00
Insurance	28,440.54
Employees welfare	2,553.05
Administrative charges to subsidiaries	(61,450.00)
Legal and professional	9,580.81
Credits and collections	1,453.65
Bank charges	676.31
Contract services	16,547.97
Directors fees	1,950.00
Rent commissions	2,704.66
Pensions	2,540.50
Miscellaneous	17,882.04
	$277,642.63

QUESTION I (1) FEDERAL RETURN

Ivan Allen Company of Albany, Ga.	96.00%
Ivan Allen Company of Athens, Ga.	100.00
Ivan Allen Co. of Athens, Tenn.	66.67
Ivan Allen Co. of Augusta, Ga.	66.67
Ivan Allen Co. of Chattanooga, Tenn.	100.00
Ivan Allen Co. of Columbus, Ga.	66.67
Ivan Allen Co. of Gainesville, Ga.	90.00
Ivan Allen Co. of Greenville, S. C.	60.00
Ivan Allen Co. of Huntsville, Ala.	84.00
Ivan Allen Co. of Macon, Ga.	66.67
Ivan Allen Co. of Rome, Ga.	66.67

FORM 2950 (Rev. July 1962)
U.S. Treasury Department
Internal Revenue Service

STATEMENT IN SUPPORT DEDUCTION
For Payments to an Employees' Pension, Profit-Sharing, Stock Bonus Trust or Annuity Plan and Compensation Under a Deferred-Payment Plan

Name and address: IVAN ALLEN COMPANY - ATLANTA, GEORGIA

Employer taxable year ended: June 30, 1966

Employer identification No.: 58-0136820

PART I.—DEDUCTION CLAIMED UNDER SECTION 404(a)(1), (2), (3), or (7)

1. Name of plan: Profit sharing pension plan of Ivan Allen Company and subsidiaries

2. Type of plan:
☐ Pension or annuity ☒ Profit-sharing ☐ Stock bonus

3. If a favorable determination letter has been received indicating that this plan qualifies under section 401 of the Code, give date of most recent determination letter: July 17, 1956

4. Medium of funding: (Check each applicable box)

(a) Trusteed plan:
☐ Individual annuity contracts
☒ Individual contracts containing life insurance
☐ Self-administered
☐ Other (Specify) .....

(b) Nontrusteed plan:
Group contract:
☐ Deposit administration
☐ Deferred annuity
☐ Group permanent
☐ Individual annuity contracts
☐ Other (Specify) .....

5. Total number of employees as of the close of the year for each of the following groups based on reasonable estimates:
(a) Employees ineligible because of requirements as to:
(i) Temporary, seasonal, part-time: .....
(ii) Job classification and not included in (i) (e.g., hourly paid, etc.): .....
(iii) Length of service and not included in (i) or (ii): 254
(iv) Minimum age and not included in (i) through (iii): 2
(v) Minimum pay (Solely): .....
(vi) Other and not included in (i) through (v) (Specify): .....
(vii) Totals ((i) through (vi)): .....
(b) Employees eligible for coverage but not covered by plan: -
(c) Employees covered by plan: 148
(d) Total of all employees (lines (a) (vii), (b), and (c)): 404
(e) If you claim that the requirements of section 401(a)(3)(A) are satisfied, check here ☒ and attach necessary data and computation to substantiate.

6. In the case of:
(a) Trust—Attach a detailed balance sheet and a detailed statement of receipts and disbursements.
(b) Nontrusteed Annuity Plan—Attach a detailed statement including for each insurer (1) the name of the insurer, (2) the contributions paid by the employer, (3) the contributions paid by the employees, and (4) the amounts and kinds of premium refunds or similar credits made available and the disposition of such credits.
(c) Pension or Annuity Plan—For each year a summary of the costs or liabilities and adjustments under the plan based on the application of the methods, factors, and assumptions used under the plan must be submitted in sufficient detail to permit ready verification of the reasonableness thereof.

7. (a) Total nondeferred compensation paid or accrued for all employees under the plan		$ 1,156,306.07
(b) Total nondeferred compensation paid or accrued for all employees		$ 2,398,544.79
(c) Total amount of contributions allocated for the benefit of employees, former or retired employees, or their beneficiaries (including any insurance provided thereby or directly related thereto)	$ -	
Less: Employee contributions	-	$ -
(d) If a profit-sharing or stock bonus plan: (i) Amount originally allocated in the year		$ 87,827.81
(ii) Amount reallocated in the year (forfeitures)		$ 2,726.76

8. Determination of total contributions subject to limitations:

(a) Contributions by the employer during taxable year (from schedule A, Part II)	$ 87,827.81
(b) Contribution carryover from previous years (from schedule B, Part II)	$
(c) Total contributions subject to limitations ((a) plus (b))	$ 87,827.81
(d) (i) Total amount deductible without regard to section 404(a)(7) (lesser of (c) or applicable limitations)	$ 87,827.81
(ii) Carryover to future years ((c) less (d)(i))	$ -

Page 2

9. Statement required with respect to each of the 25 highest-paid employees covered by the plan OR participating stockholder-employees who own more than 5 percent of the v[illegible] stock and who are among the 25 highest paid. [illegible]whever is applicable. (See instructions.)

	EMPLOYEE NAME (The letters on each line identify the line entries for the employee in the following sections of the form) (a)	Is Employee an Officer (b) Yes	Is Employee an Officer (b) No	Percent of Voting Stock Owned (see instructions) (c)	Are Principal Duties Supervisory (d) Yes	Are Principal Duties Supervisory (d) No	Year of Birth (e)	Length of Service for Employer (years) (f)
A	Ivan Allen, Sr.	X		31.20	X		1876	65
B	Ivan Allen, Jr.		X	45.46	X		1911	35
C	W. H. Glenn, Jr.	X		6.44	X		1913	15
D								
E								
F								
G								
H								
I								
J								
K								
L								
M								
N								
O								
P								
Q								
R								
S								
T								
U								
V								
W								
X								
Y								

EMPLOYEE	NONDEFERRED COMPENSATION: Basic Compensation and Overtime (g)	Other Direct Payments (h)	Other Than Cash (i)	TOTAL (j)	Amount Allocated for the Benefit of the Employee or Beneficiary (Include any insurance provided thereby or directly related thereto), less Employee's Contributions: Under Each Other Plan of Deferred Compensation (k)	Under This Plan (l)	If Profit-Sharing or Stock Bonus Plan: Amount Allocated in the Year Originally (m)	If Profit-Sharing or Stock Bonus Plan: Amount Reallocated in the Year (n)
A	12,525			12,525	-	1,202.45	1,166.25	36.20
B	15,025			15,025	-	1,007.46	977.12	30.34
C	33,025			33,025	-	877.47	851.04	26.43
D								
E								
F								
G								
H								
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L								
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TAX SCHEDULE - 58-0136820

IVAN ALLEN COMPANY - ATLANTA, GEORGIA

Year ended June 30, 1966

FORM 2950 - PART I SEC. 7 (d) (i)

	Charged to expense	Credited to employees
Ivan Allen Company - Atlanta, Ga.	$ 70,000.00	$ 72,173.25
- Albany, Ga.	926.69	955.46
- Athens, Tenn.	1,166.25	1,202.45
- Augusta, Ga.	1,708.39	1,761.44
- Chattanooga, Tenn.	1,588.62	1,637.94
- Columbus, Ga.	1,311.24	1,351.95
- Gainesville, Ga.	1,676.87	1,728.94
- Greenville, S. C.	3,788.72	3,906.35
- Huntsville, Ala.	806.92	831.97
- Macon, Ga.	2,546.83	2,625.90
- Rome, Ga.	2,307.28	2,378.92
	$ 87,827.81	$ 90,554.57
Forfeitures	2,726.76	-
	$ 90,554.57	$ 90,554.57

TRUST FUND BALANCE SHEET

ASSETS

Cash and due from employer	$ 91,850.75
Securities (at market value 6-30-66)	826,797.21
Accrued income	4,216.89
	$922,864.85

LIABILITIES

Insurance premiums payable	$ 19,220.39
Allocated to members	903,644.46
	$922,864.85

TRUST FUND INCOME

Employer contribution		$ 87,827.81
Dividends and interest received		32,326.24
Insurance refunds		408.13
Net increase in accrued income		361.97
		$120,924.15
Deduct:		
Loss on sale of, and decline in market value of securities	$ 49,454.46	
Insurance premiums paid	20,802.46	
Benefits to members	11,956.36	82,213.28
		$ 38,710.87

EMPLOYEE	EMPLOYEE CONTRIBUTIONS UNDER THIS PLAN (o)	IF PENSION OR ANNUITY PLAN: Retirement Age (p)	Expected Date of Retirement (q)	Form of Retirement Benefit (r)	Annual Rate or Amount of Retirement Benefit (s)	Aggregate of All of the Employee's Contributions Under the Plan (t)
Y						
Total						
A						
B						
C						
D						
E						
F						
G						
H						
I						
J						
K						
L						
M						
N						
O						
P						
Q						
R						
S						
T						
U						
V						
W						
X						
Y						
Total						

10. Have you attached copies of the following which you are required to submit for the **first taxable year** for which a deduction is claimed or for **subsequent years** if there is any **change** in the plan, instruments, methods, factors or assumptions?

ITEM	YES	NO
a. Verified copies of all instruments constituting the plan, including trust indentures, group annuity contracts, specimen copy of each type of individual contract and specimen copy of formal announcement and comprehensive detailed description to employees, with all amendments to any such instruments	X	
b. A statement which sets forth: (1) Name or names of employers	X	
(2) Effective date of the plan and any amendments thereto	X	
(3) Method of distribution or of disbursing benefits (whether by trustee, insurance company, or otherwise)	X	
(4) Dates when the instruments or amendments were executed	X	
(5) Date of formal announcement	X	
(6) Dates when comprehensive detailed description of the plan and of each amendment thereto were made available to employees generally	X	
(7) Date when plan was put into effect	X	
(8) Date when trust or contract and any amendments thereto were put into effect so that contributions thereunder were irrevocable	X	
c. A summary of the provisions and rules relating to: (1) Employee eligibility requirements for participation in the plan	X	
(2) Employee contributions		X
(3) Employer contributions	X	
(4) The basis or formula for determining the amount of each type of benefit and the requirements for obtaining such benefits and the vesting conditions	X	
(5) The discontinuance or modification of the plan and distributions or benefit payments upon liquidation or termination		X
d. If pension or annuity plan, a detailed description of all the methods, factors, and assumptions used in determining costs and in adjusting the cost for actual experience under the plan (including any loadings, contingency reserves, or special factors and the basis of any insured costs or liabilities involved therein) explaining their source and application in sufficient detail to permit ready analysis and verification thereof, and in the case of a trust, a detailed description of the basis used in valuing the investments held		X

PART II.—DETERMINATION OF ALLOWABLE DEDUCTION

Schedule A—Employer Contribution (See instructions)

Check whether contributions were made in: [X] Cash [ ] Other than cash

Dates Paid	Amount	Dates Paid	Amount
Paid	18,000.00		
Accrued			
6-27-66			
Paid			
9-9-66	69,827.81		
		Total	87,827.81

Schedule I Contribution Carryover

(Complete the following for each of the six taxable years prior to the current year, without regard to section 404(a)(7))

Year Ended (a)	Amount Contributed (b)	Amount Deductible (c)	Cumulative Carryover To Succeeding Years (d)
19			
19			
19			
19			
19			
19			

Cumulative carryover equals column (d) from previous year plus column (b) for current year, less column (c) for current year. (See instructions.)

SCHEDULE C.—PENSION TRUSTS AND ANNUITY PLANS (Complete either I or II)

I. Section 404(a)(1)(A) and (B) Limitations

1. Total nondeferred compensation paid or accrued during taxable year to all covered employees (from line 7(a) Part I) $
2. Limitation under section 404(a)(1)(A)—5 percent of line 1 (unless limitation has been reduced) $
3. Limitation under section 404(a)(1)(B) if aggregate cost method is used (See Regs., section 1.404(a)-5(c)) $
4. Total of lines 2 and 3 if aggregate cost method is used $
5. (a) Gross annual premiums under "Individual Contract Plan" (see instructions) $
   (b) Less: Dividends and other credits $
   (c) Net premiums due (line 5(a) less line 5(b)) $

II. Section 404(a)(1)(C) Limitations

1. Normal cost (current year's service cost) $
2. Total past service or supplemental base $
3. 10 percent of line 2 (see instructions) $
4. Total of lines 1 and 3 $
5. Less: Credits and gains $
6. Net limitation (line 4 less line 5) $

SCHEDULE D.—PROFIT-SHARING AND STOCK BONUS PLANS (Section 404(a)(3)(A) Limitations)

1. Total nondeferred compensation paid or accrued for all employees under the plan (from line 7(a), Part I) $ 1,156,306.07
2. Limitation—15 percent of compensation shown on line 1 $ 173,445.91
3. Contributions by the employer during the year (from line 8(a), Part I) $ 87,827.81
4. Contribution carryover from previous years (from line 8(b), Part I) $ -
5. Total contributions subject to limitation (from line 8(c), Part I) $ 87,827.81
6. Credit carryover (Attach computations) $ -
7. Limitations: Primary (lesser of line 5, or line 2) or secondary* $ 87,827.81

*Secondary (smallest of line 3, line 2 plus line 6, or two times line 2). Secondary limitation applies only if there is a credit carryover on line 6.

SCHEDULE E.—Section 404(a)(7) Limitations. (See instructions)

1. Amount deductible for year under section 404(a)(7):
   (a) 30 percent of covered compensation in year $
   (b) (i) 25 percent of covered compensation in year $
   (ii) Total amount otherwise deductible for year $
   (iii) Smaller of (i) or (ii) $
   (iv) Carryover from prior years under section 404(a)(7) (attach computation) $
   (v) Sum of (iii) and (iv) $
   (c) Amount deductible (lesser of (a) or (b)(v)) $
2. Carryover to succeeding years under section 404(a)(7) (line 1(b)(iv) plus line 1(b)(ii) less line 1(c)) $

PART III.—DEDUCTION CLAIMED UNDER SECTION 404(a)(5)

1. Type of plan: [ ] Pension or annuity [ ] Profit sharing [ ] Stock bonus [ ] Other plan of deferred compensation
2. The amount of the deduction $
3. Total number of employees covered
4. Total number of employees employed

5. Was the amount deducted paid:
   [ ] Directly to an employee, a former employee or his beneficiary
   [ ] To a trust [ ] To an insurance company [ ] To another person

6. Have you attached a statement containing such information as is necessary to show that the deduction is not allowable under section 404(a)(1), (2), (3), and (7), that the amount paid is an ordinary and necessary expense or an expense for the production of income and that the employees' rights to, or derived from, the employer's contribution or deferred compensation were nonforfeitable at the time the contribution or compensation was paid? [ ] Yes [ ] No

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TAX SCHEDULE - 58-0136820

IVAN ALLEN COMPANY - ATLANTA, GEORGIA

Year ended June 30, 1966

BALANCE SHEETS

	6-30-65	6-30-66
Other investments:		
Marketable securities	$154,222.24	$135,754.11
Investments in subsidiaries	351,141.38	350,282.30
	$505,363.62	$486,036.41
Other assets:		
Cash value of life insurance	$176,864.59	$192,363.18
Prepaid expenses	28,811.61	21,713.76
Leasehold improvements - net	19,829.13	16,562.13
	$225,505.33	$230,639.07
Other current liabilities:		
Income taxes	$151,521.21	$208,533.90
Other taxes	89,819.67	80,198.71
Accrued salaries and wages	16,557.54	18,663.36
Accrued interest	414.69	394.46
Accrued profit sharing pension contribution	59,786.78	69,827.81
	$318,099.89	$377,618.24

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Form 1120 (1965) Page 3

Schedule I—SPECIAL DEDUCTIONS
(Small business investment companies and members of affiliated groups—see instructions)

1. Dividends received: (a) 85 percent of column 2, Schedule C	51,388.86
(b) 60.208 percent of column 4, Schedule C	
(c) 85 percent of dividends received from certain foreign corporations	
2. Total dividends-received deductions (sum of lines 1 (a), (b), and (c) but not to exceed 85 percent of the excess of line 28, page 1 over line 4 of this schedule). (The 85-percent limitation does not apply to a year in which a net operating loss occurs.)	51,388.86
3. Dividends paid on certain preferred stock of public utilities (see instructions in case of net operating loss)	
4. Western Hemisphere trade corporations (not allowable in year of net operating loss)	
5. Total special deductions—Add lines 2, 3, and 4. Enter here and on line 29(b), page 1	51,388.86

SCHEDULE J—TAX COMPUTATION
(Component members of controlled corporate group use Form 3920 to compute your tax)

1. Taxable income (line 30, page 1)		
2. If amount on line 1 is:		
(a) Not over $25,000—Enter 22 percent of line 1		
(b) Over $25,000—Enter 48 percent of line 1		
Subtract $6,500 and enter difference	6,500.00	
3. Income tax (line 2, or line 22 of separate Schedule D, whichever is lesser)		
4. Foreign tax credit (attach Form 1118)		
5. Balance (line 3 less line 4)		3486.77
6. Investment credit (attach Form 3468)		
7. Balance of income tax (line 5 less line 6)		
8. Tax under section 541 of the Internal Revenue Code (attach Schedule 1120 PH)		
9. Tax from recomputing prior year investment credit (attach statement)		
10. Total tax—Add lines 7, 8, and 9. Enter here and on line 31, page 1		

H. Date incorporated 12-5-02

I. (1) Did the corporation at the end of the taxable year own directly or indirectly 50 percent or more of the voting stock of a domestic corporation? Yes ☒ No ☐

(2) Did any corporation, individual, partnership, trust or association at the end of the taxable year own directly or indirectly 50 percent or more of the corporation's voting stock? Yes ☐ No ☒
(For rules of attribution, see section 267 (c).)
If the answer to (1) or (2) is "Yes," attach separate schedule showing
(a) name, address, and employer identification no.; and (b) percentage owned.
If the answer to (1) above is "Yes," indicate the taxable income (or loss) of such corporation for the taxable year ending with or within your taxable year.

J. Did you have any contracts or subcontracts subject to the Renegotiation Act of 1951? Yes ☐ No ☒
If "Yes," see inst. K. Enter amount here

K. Did you at any time during the year own directly or indirectly any stock of a foreign corporation? Yes ☐ No ☒
If "Yes," attach statement required by instruction N.

L. Amount of taxable income (or loss) for: 1962.. 374,114.60 1963.. 437,962.77 1964.. 341,045.82

M. Did you claim a deduction for expenses connected with
(1) A hunting lodge ☐, working ranch or farm ☐, fishing camp ☐, resort property ☐, pleasure boat or yacht ☐, or other similar facility ☐? (Other than where the operation of the facility was the principal business.) Yes ☐ No ☒
(2) The leasing, renting, or ownership of a hotel room or suite ☐, apartment ☐, or other dwelling ☐, which was used by customers or employees or members of their families? (Other than use by employees while in bona fide travel status.) Yes ☐ No ☒
(3) The attendance of your employees' families at conventions or business meetings? Yes ☐ No ☒
(4) Vacations for employees or members of their families? (Other than amount reported on Form W-2.) Yes ☐ No ☒

N. Refer to instructions and state the:
Principal business activity: office outfitters
Principal product or service:

O. Were you a member of a controlled group subject to the provisions of section 1561? Yes ☐ No ☒, or section 1562? Yes ☒ No ☐
If "Yes," check type of relationship:
(1) parent-subsidiary ☒
(2) brother-sister ☐
(3) combination of (1) and (2) ☐ (see section 1563)

P. Were you liable for filing Forms 1096 and 1099 or 1097 for the calendar year 1965? Yes ☒ No ☐
If "Yes," where were they filed? Atlanta, Ga.

Q. Were distributions made to stockholders during the taxable year from other than (a) earnings and profits of the current year or (b) earnings and profits accumulated from February 28, 1913? Yes ☐ No ☒ If "Yes," was the determination made in accordance with Revenue Procedure 65-10? Yes ☐ No ☐

R. Was there any substantial change in the manner of determining quantities, costs or valuations between opening and closing inventory? Yes ☐ No ☒
If "Yes," attach explanation.

S. Were you a U.S. shareholder of any controlled foreign corporation? Yes ☐ No ☒ (see sections 951 and 957.) If "Yes," attach Form 3646 for each such corporation.

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Form 1120 (1965) — Page 4

Schedule L—BALANCE SHEETS (See Instru...ns)

ASSETS	Beginning of taxable year (A) Amount	Beginning of taxable year (B) Total	End of taxable year (C) Amount	End of taxable year (D) Total
1. Cash		319,726.66		435,721.37
2. Notes and accounts receivable	776,084.23		972,709.97	
(a) Less allowance for bad debts		776,084.23		972,709.97
3. Inventories		569,214.25		660,081.03
4. Investments in Government obligations				
5. Other current assets (attach schedule)				
6. Loans to stockholders				
7. Other investments (attach schedule)		505,363.62		486,036.41
8. Buildings and other fixed depreciable assets	1,430,305.92		1,500,075.03	
(a) Less accumulated depreciation	485,614.83	944,691.09	552,448.05	947,626.98
9. Depletable assets				
(a) Less accumulated depletion				
10. Land (net of any amortization)		377,250.00		433,625.00
11. Intangible assets (amortizable only)				
(a) Less accumulated amortization				
12. Other assets (attach schedule)		225,505.33		230,639.07
13. Total assets		3,717,835.18		4,166,439.83
LIABILITIES AND CAPITAL				
14. Accounts payable		460,409.29		441,633.20
15. Mtges., notes, bonds payable in less than 1 yr.		14,922.11		15,663.84
16. Other current liabilities (attach schedule)		318,099.89		377,618.24
17. Loans from stockholders				
18. Mtges., notes, bonds payable in 1 yr. or more		290,865.48		275,201.64
19. Other liabilities (attach schedule)				
20. Capital stock: (a) Preferred stock				
(b) Common stock	376,860.00	376,860.00	414,470.00	414,470.00
21. Paid-in or capital surplus (attach reconciliation)		56,493.64		281,706.39
22. Surplus reserves (attach schedule)				
23. Earned surplus and undivided profits		2,200,184.77		2,360,146.52
24. Total liabilities and capital		3,717,835.18		4,166,439.83

ITEMIZED ENTRIES MADE BELOW MUST BE IDENTIFIED BY ACCOUNT

Schedule M-1—RECONCILIATION OF INCOME PER BOOKS WITH INCOME PER RETURN

1. Net income per books		450,501.83	7. Income recorded on books this year not included in this return (itemize)
2. Federal income tax Accrued		233,758.83	Increase in C.S.V., Life insurance in excess of cost 1,700.51
3. Excess of capital losses over capital gains			
4. Taxable income not recorded on books this year (itemize)			8. Deductions in this tax return not charged against book income this year (itemize)
			Contributions carry-over from F.Y.E. 6-30-65 1,659.10
5. Expenses recorded on books this year not deducted in this return (itemize)			
			9. Total of lines 7 and 8 3,359.61
6. Total of lines 1 through 5		684,260.66	10. Income (line 28, page 1)—line 6 less 9 680,901.05

Schedule M-2—ANALYSIS OF EARNED SURPLUS AND UNDIVIDED PROFITS PER BOOKS (line 23, page 4)

1. Balance at beginning of year			5. Distributions: (a) Cash 512,747.47
2. Net income per books			(b) Stock [illegible]
3. Other increases (itemize)			(c) Property
			6. Other decreases (itemize)
			Schedule [illegible]
4. Total of lines 1, 2, and 3			7. Total of lines 5 and 6
			8. Balance end of year (line 4 less 7)

BALANCE SHEET

IVAN ALLEN COMPANY - ATLANTA, GEORGIA

June 30, 1965

ASSETS			
CURRENT ASSETS			
Cash on hand and in bank			$ 319,726.66
Accounts receivable, customers			776,084.23
Inventories (at lower of cost or market):			
Furniture		$ 161,456.95	
Stationery		181,089.62	
Drafting and engineering		96,319.85	
Quick-copy		9,321.76	
Printing		101,822.12	
60 Peachtree Street		19,203.95	569,214.25
TOTAL CURRENT ASSETS			$1,665,025.14
INVESTMENTS			
Marketable securities (at cost; market value $1,634,591.75)		$ 154,222.24	
Investments in subsidiaries - at cost:			
Investments	$ 230,330.88		
Advances	120,810.50	351,141.38	505,363.62
PROPERTY, PLANT AND EQUIPMENT (at cost less depreciation)			
Rental property (note A):			
Land	$ 377,250.00		
Buildings	1,092,193.88		
	$1,469,443.88		
Less allowance for depreciation	259,717.00	$1,209,726.88	
Furniture and fixtures	$ 28,636.69		
Less allowance for depreciation	16,693.45	11,943.24	
Automobiles and trucks	$ 55,994.57		
Less allowance for depreciation	34,167.70	21,826.87	
Machinery and equipment	$ 253,480.78		
Less allowance for depreciation	175,036.68	78,444.10	1,321,941.09
DEFERRED CHARGES AND OTHER ASSETS			
Cash surrender value of life insurance		$ 176,864.59	
Unexpired insurance premiums		8,276.95	
Sundry receivables and prepayments		20,534.66	
Leasehold improvements (at cost less $11,715.73)		19,829.13	225,505.33
			$3,717,835.18

Note A - Land and building located at 1740 Peachtree Street with a depreciated cost valuation of $301,632.67 is pledged to secure a first mortgage note due Bibb Manufacturing Co., with a balance of $305,787.59 as of June 30, 1965.

LIABILITIES			
CURRENT LIABILITIES			
Current maturities of long-term notes (note A)			$ 14,922.11
Accounts payable, trade			386,120.94
Accounts payable to subsidiaries			74,288.35
Taxes on income estimated:			
Current year	$ 115,348.64		
Prior years	36,172.57		151,521.21
Accrued liabilities:			
Salaries and wages	$ 16,557.54		
Taxes, other than taxes on income	89,829.67		
Interest	414.69		
Profit sharing pension contribution	59,786.78		166,578.68
TOTAL CURRENT LIABILITIES			$ 793,431.29
LONG-TERM DEBT			
5 1/2% first mortgage note, due in monthly installments of $2,614.00 each, including principal and interest; secured (note A)	$ 305,787.59		
Less current maturities	14,922.11		290,865.48
CAPITAL			
Contributed capital:			
Common stock, authorized 40,000 shares of $10.00 par value; issued and outstanding 37,686 shares	$376,860.00		
Capital contributed in excess of par value of stock	50,129.00		
Contributed capital arising from liquidation of subsidiary	6,364.64	$ 433,353.64	
Retained earnings:			
Unappropriated		2,200,184.77	2,633,538.41
			$3,717,835.18

STATEMENT OF INCOME

IVAN ALLEN COMPANY - ATLANTA, GEORGIA

Year ended June 30, 1965

Net profit from operations:			
Furniture			$ 17,752.39
Stationery			79,402.45
Drafting and engineering			25,856.08
Quick-copy			35,549.70
Printing			65,726.84
60 Peachtree			39,881.81
TOTAL NET PROFIT FROM OPERATIONS			$264,169.27
Other income:			
Discount earned		$ 77,074.94	
Interest received		13,205.96	
Dividends received		59,293.63	
Bad debt recoveries		1,342.31	
Rent income:			
972 Marietta Street	$12,000.00		
56 Pryor Street	12,837.80		
660 Forrest Road	19,800.00		
1740 Peachtree Street	47,493.36		
221 Ivy Street	67,285.00	159,325.76	
Profit on sale of assets		1,657.04	
Vendor's compensation, sales tax		214.52	323,014.16
			$587,183.43
Other deductions:			
Interest expense		$ 70,680.94	
Rental property expense:			
Rent paid	$12,194.96		
Commissions	1,875.08		
Taxes	20,279.42		
Insurance	2,486.39		
Depreciation	47,919.70		
Repairs, buildings	6,859.43	93,419.98	
Life insurance, officers, net		(1,023.25)	
Pensions		2,808.60	
Sundry		127.93	115,813.80
NET INCOME BEFORE PENSION CONTRIBUTION			$471,369.63
Profit sharing pension contribution			60,000.00
NET INCOME BEFORE INCOME TAXES			$411,369.63
Income taxes, estimated:			
Federal		$161,444.98	
State		17,339.67	178,784.65
NET INCOME			$232,584.98

DEPARTMENTAL STATEMENT OF OPERATIONS

IVAN ALLEN COMPANY - ATLANTA, GEORGIA

Year ended June 30, 1965

	Furniture	Stationery	Drafting and Engineering
Sales	$1,944,786.37	$1,838,495.54	$577,578.11
Freight on sales, net	(429.47)	(6.66)	(5.00)
NET SALES	$1,944,356.90	$1,838,488.88	$577,573.11
Cost of sales:			
Inventory, June 30, 1964	$ 159,949.97	$ 153,842.08	$ 70,648.37
Purchases, finished goods	1,439,143.47	1,286,888.41	404,303.54
Freight in	42,954.40	23,769.37	10,913.58
	-	-	-
	$1,642,047.84	$1,464,498.80	$505,865.49
Less inventory, June 30, 1965	161,456.95	181,089.62	96,319.85
COST OF SALES	$1,480,590.89	$1,283,409.18	$409,545.64
GROSS PROFIT	$ 463,766.01	$ 655,079.70	$168,027.47
Expenses:			
Selling	$ 254,598.97	$ 300,932.33	$ 92,226.24
Warehouse and delivery	87,255.06	133,061.18	15,654.26
Administrative	138,837.13	186,896.14	53,398.90
	$ 480,691.16	$ 620,889.65	$161,279.40
	$ (16,925.15)	$ 34,190.05	$ 6,748.07
Profit on special sales	6,312.57	45.30	200.30
Charges to subsidiaries	28,365.97	45,167.08	18,907.71
NET PROFIT FROM OPERATIONS	$ 17,753.39	$ 79,401.45	$ 25,856.08

Quick-copy	Printing	60 Peachtree	Total
$284,058.94	$1,591,798.64	$267,867.24	$6,504,584.84
-	(2,793.23)	(90.72)	(3,385.08)
$284,058.94	$1,589,005.41	$267,776.52	$6,501,199.76
$ 3,916.15	$ 32,957.90	$ 20,547.35	$ 443,860.76
-	90,709.00	148,614.04	3,289,658.46
-	11.81	264.59	77,913.75
152,502.77	1,045,195.46	-	1,197,698.23
$156,418.92	$1,168,874.17	$170,425.98	$5,009,131.20
3,823.66	36,666.16	19,203.95	498,960.49
$152,595.26	$1,132,208.01	$151,222.03	$4,510,170.71
$131,463.68	$ 456,797.40	$115,554.49	$ 990,685.72
$ 57,380.94	$ 241,695.49	$ 48,177.66	$ 995,011.63
6,493.70	26,557.61	21,795.02	290,816.83
32,039.34	142,817.46	5,700.00	549,688.91
$ 95,913.98	$ 391,070.56	$ 75,672.68	$1,835,517.37
$ 35,549.70	$ 65,726.84	$ 39,881.81	$ 845,182.35
-	-	-	6,457.43
-	-	-	91,202.76
$ 35,549.70	$ 65,726.84	$ 39,881.81	$ 947,842.54

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BALANCE SHEET

IVAN ALLEN COMPANY, ATLANTA, GEORGIA

June 30, 1966

ASSETS				
CURRENT ASSETS				
Cash on hand and in bank			$ 435,721.37	
Accounts receivable, customers			972,709.97	
Inventories (at lower of cost or market):				
Furniture		$ 212,037.74		
Stationery		192,513.56		
Drafting and engineering		110,648.65		
Quick-copy		10,391.77		
Printing		114,313.63		
60 Peachtree Street		20,175.68	560,081.03	
TOTAL CURRENT ASSETS			$2,068,512.37	
INVESTMENTS				
Marketable securities (at cost; market value $2,551,210.50)		$ 135,754.11		
Investments in subsidiaries - at cost:				
Investments	$ 198,726.34			
Advances	151,555.96	350,282.30	486,036.41	
PROPERTY, PLANT AND EQUIPMENT - (at cost less depreciation)				
Rental property (note A):				
Land	$ 433,625.00			
Buildings	1,092,193.88			
	$1,525,818.88			
Less allowance for depreciation	305,764.46	$1,220,054.42		
Furniture and fixtures	$ 57,744.49			
Less allowance for depreciation	24,910.04	32,834.45		
Automobiles and trucks	$ 76,421.99			
Less allowance for depreciation	29,074.54	47,347.45		
Machinery and equipment	$ 273,714.67			
Less allowance for depreciation	192,699.01	81,015.66	1,381,251.98	
DEFERRED CHARGES AND OTHER ASSETS				
Cash surrender value of life insurance		$ 192,363.18		
Unexpired insurance premiums		10,473.86		
Sundry receivables and prepayments		11,239.90		
Leasehold improvements (at cost less $14,982.73 amortization)		16,562.13	230,639.07	
			$4,166,439.83	

Note A - Land and building located at 1740 Peachtree Street with a depreciated cost valuation of $288,135.54 is pledged to secure a first mortgage note due Bibb Manufacturing Co., with a balance of $290,865.48 as of June 30, 1966.

LIABILITIES			
CURRENT LIABILITIES			
Current maturities of long-term notes (note A)			$ 15,663.84
Accounts payable trade			441,633.20
Taxes on income for the year ended June 30, 1966, estimated			208,533.90
Accrued liabilities:			
Salaries and wages	$ 18,663.36		
Taxes, other than taxes on income	80,198.71		
Interest	394.46		
Profit sharing pension contribution	69,827.81	169,084.34	
TOTAL CURRENT LIABILITIES		$ 834,915.28	
LONG-TERM DEBT			
5 1/2% first mortgage note due in monthly installments of $2,614.00 each, including principal and interest; secured (note A)	$ 290,865.48		
Less current maturities	15,663.84	275,201.64	
CAPITAL			
Contributed capital:			
Common stocks, authorized 100,000 shares of $10.00 par value; issued and outstanding 41,447 shares	$414,470.00		
Capital contributed in excess of par value of stock	50,129.00		
Contributed capital arising from liquidation of subsidiary	6,364.64		
Excess of stated amount of stock dividend over par value	225,212.75	$ 696,176.39	
Retained earnings:			
Unappropriated		2,360,146.52	3,056,322.91
			$4,166,439.83

STATEMENT OF INCOME

IVAN ALLEN COMPANY - ATLANTA, GEORGIA

Year ended June 30, 1966

Net profit from operations:			
Furniture			$ 60,749.77
Stationery			58,909.71
Drafting and engineering			16,820.07
Quick-copy			32,072.49
Printing			102,139.06
60 Peachtree			52,966.40
TOTAL NET PROFIT FROM OPERATIONS			$323,657.50
Other income:			
Discount earned		$ 97,127.74	
Interest earned		9,037.35	
Dividends received		60,457.48	
Bad debt recoveries		5,660.46	
Rent income:			
972 Marietta Street	$12,000.00		
56 Pryor Street	13,164.52		
660 Forrest Road	19,800.00		
1740 Peachtree Street	43,541.63		
221 Ivy Street	67,458.00	155,964.15	
Profit on sale of assets		255,920.98	
Vendor's compensation, sales tax		2,597.84	586,766.00
			$910,423.50
Other deductions:			
Interest expense		$ 23,499.01	
Rental property expense:			
Rent paid	$14,199.96		
Commissions	2,704.66		
Taxes	22,399.69		
Insurance	1,858.32		
Depreciation	46,047.46		
Repairs, building	18,420.49	105,630.58	
Life insurance, officers, net		(1,700.51)	
Pensions		2,540.50	
Sundry		109.83	130,079.41
NET INCOME BEFORE PENSION CONTRIBUTIONS			$780,344.09
Profit sharing pension contribution			70,000.00
NET INCOME BEFORE INCOME TAXES			$710,344.09
Income taxes, estimated:			
Federal		$233,758.83	
State		26,083.43	259,842.26
NET INCOME			$450,501.83

DEPARTMENTAL STATEMENT OF OPERATIONS

IVAN ALLEN COMPANY - ATLANTA, GEORGIA

Year ended June 30, 1966

	Furniture	Stationery	Drafting and engineering
Sales	$2,374,999.20	$2,046,402.77	$910,206.61
Freight on sales, net	(186.40)	2,884.81	532.64
	$2,374,812.80	$2,049,287.58	$910,739.25
Cost of sales:			
Inventory, June 30, 1965	$ 161,456.95	$ 181,089.62	$ 96,319.85
Purchases, finished goods	1,814,890.87	1,334,173.72	721,085.01
Freight in	50,044.92	25,233.64	17,830.52
Cost of goods manufactured	-	-	-
	$2,026,392.74	$1,540,496.98	$835,235.38
Less inventory, June 30, 1966	212,037.74	192,513.56	110,648.65
COST OF SALES	$1,814,355.00	$1,347,983.42	$724,586.73
GROSS PROFIT	$ 560,457.80	$ 701,304.16	$186,152.52
Expenses:			
Selling	$ 289,236.08	$ 328,684.03	$114,743.44
Warehouse and delivery	101,805.43	155,424.57	20,113.77
Administrative	154,308.34	207,722.77	59,349.36
	$ 545,349.85	$ 691,831.37	$194,206.57
	$ 15,107.95	$ 9,472.79	$ (8,054.05)
Profit on special sales	9,963.65	(815.37)	226.01
Charges to subsidiaries	35,678.17	50,252.29	24,648.11
NET PROFIT FROM OPERATIONS	$ 60,749.77	$ 58,909.71	$ 16,820.07

Quick-copy	Printing	60 Peachtree	Total
$316,700.17	$1,764,624.78	$306,049.08	$7,718,982.61
(61.56)	(6,726.91)	(52.01)	(3,609.43)
$316,638.61	$1,757,897.87	$305,997.07	$7,715,373.18
$ 3,823.66	$ 36,666.16	$ 19,203.95	$ 498,560.19
-	93,413.15	170,474.53	4,134,037.28
-	194.15	393.40	93,696.63
180,898.59	1,143,862.60	-	1,324,761.19
$184,722.25	$1,274,136.06	$190,071.88	$6,051,055.29
6,145.42	44,119.57	20,175.68	585,940.62
$178,576.83	$1,230,016.49	$169,896.20	$5,465,114.67
$138,061.78	$ 527,881.38	$136,100.87	$2,250,258.51
$ 63,082.79	$ 265,261.66	$ 55,209.48	$1,116,217.48
7,196.88	23,977.12	22,224.99	331,142.76
35,809.62	136,503.54	5,700.00	599,193.63
$106,089.29	$ 425,742.32	$ 83,134.47	$2,046,553.87
$ 32,072.49	$ 102,139.06	$ 52,966.40	$ 203,704.64
-	-	-	9,374.29
-	-	-	110,578.57
$ 32,072.49	$ 102,139.06	$ 52,966.40	$ 323,657.50

IN THE
UNITED STATES DISTRICT COURT FOR THE
NORTHERN DISTRICT OF GEORGIA
ATLANTA DIVISION

(Title Omitted in Printing)

ORDER

(Filed October 6, 1972)

This is a tax refund suit brought by Ivan Allen Company, a Georgia corporation engaged in the office supply and equipment business, to recover federal income and accumulated earnings taxes that it contends were erroneously assessed and collected by the Internal Revenue Service [hereinafter the IRS]. According to a stipulation submitted jointly by the parties, the sole issue presently before the Court concerns the proper interpretation and application of the accumulated earnings tax provisions of the Internal Revenue Code [hereinafter the IRC].

The accumulated earnings tax[1] is a penalty tax imposed on a corporation which has been used to avoid per-

1. Sections 53-533 of the Internal Revenue Code of 1954 provide:

SEC. 531. IMPOSITION OF ACCUMULATED EARNINGS TAX.

In addition to other taxes imposed by this chapter, there is hereby imposed for each taxable year on the accumulated taxable income (as defined in section 535) of every corporation described in section 532, an accumulated earnings tax equal to the sum of—

(1) 27 1/2 percent of the accumulated taxable income not in excess of $100,000, plus

(2) 38 1/2 percent of the accumulated taxable income in excess of $100,000.

* * *

SEC. 532. CORPORATIONS SUBJECT TO ACCUMULATED EARNINGS TAX.

(a) General Rule.—The accumulated earnings tax imposed by Section 531 shall apply to every corporation (other

sonal income taxes[2] on its shareholders by permitting its earnings and profits to accumulate beyond the reasonable needs of its business rather than being divided or distributed. Ivan Allen Company accumulated retained earnings and invested them in marketable securities. The question before the Court is whether these marketable securities should be accounted for at cost, as the taxpayer contends, or at fair market value (less the cost of converting them into cash), as the government contends, for determining the applicability of the accumulated earnings tax.[3] The government admits that if the Court decides the securities should be accounted for at their cost, the taxpayer's undistributed earnings and profits were not permitted to accumulate beyond the reasonable needs of the taxpayer's

than those described in subsection (b)) formed or availed of for the purpose of avoiding the income tax with respect to its shareholders or the shareholders of any other corporation, by permitting earnings and profits to accumulate instead of being divided or distributed.

* * *

SEC 533. EVIDENCE OF PURPOSE TO AVOID INCOME TAX.

(a) *Unreasonable Accumulation Determinative of Purpose.*—For purposes of section 532, the fact that the eanings and profits of a corporation are permitted to accumulate beyond the reasonable needs of the business shall be determinative of the purpose to avoid the income tax with respect to shareholders, unless the corporation by the preponderance of the evidence shall prove to the contrary.

* * *

2. Tax avoidance is possible due to the disparity in tax rates for individuals versus corporations.

3. The precise technical legal question presented to the Court is:

"Whether, in determining the amount of the taxpayer's net liquid assets at the close of each of the suit years, for purposes of determining the applicability of Section 533(a) of the Internal Revenue Code of 1954, the taxpayer's marketable securities should properly be taken into account at their cost, as the taxpayer contends, or at their fair market value (less the cost of converting them into cash), as the government contends." [Stipulation filed jointly by the parties, p. 5, #15, June 12, 1972]

business and the full amount of accumulated earnings tax collected must be refunded.

After careful consideration of the accounting principles and tax policies involved, the Court rules for the taxpayer and holds that when computing the taxpayer's net liquid assets for the purpose of determining the applicability of Section 533(a) of the Internal Revenue Code of 1954, the taxpayer's marketable securities should be valued at their cost.[4]

While the Court is aware of Tax Court decisions which have reached a contrary result,[5] the Court agrees with and prefers to apply the excellent reasoning of Judge Miller in *American Trading and Production Corporation* v. *United States* [Civil No. 70-1266-M (D. Md., May 10, 1972), 29 Am. Fed. Tax. R.2d ¶72-643]. Neither the statute[6] nor the relevant Treasury Regulations[7] suggest that the unrealized appreciation of a corporation's assets should be taken into account for purposes of the accumulated earnings tax. To force a corporate taxpayer to sell part of its retained earnings investment portfolio in order to avoid an accumulated earnings tax because the investments increased in value since purchase is inconsistent not only with sound tax accounting principles but also with better business judgment. Normally, gains are not recognized un-

4. The Court specifically limits this decision to value the securities at their cost to situations where the fair market value of the securities is *greater* than cost. The Court in no way implies that marketable securities should be valued at their cost when fair market value is *lower* than cost. That is an entirely different situation which may involve a more complex analysis and different accounting principles.

5. *Golconda Mining Corporation*, 58 T.C. No. 74 (1972); *Henry Van Hummel, Inc.* v. *Commissioner*, 23 T.C.M. 1765 (1964), *aff'd*, 364 F.2d 746 (10th Cir. 1966).

6. Internal Revenue Code § 531, *et seq.*

7. Treasury Regulations §§ 1.537-1, 1.535-3(b)(1)(ii), 1.533-1(a)(2).

til realized and in this case the proper value of the securities, until they are converted into cash, is their cost. Corporate taxpayers should not be penalized for wise investments; they should be allowed to maximize their capital gains tax advantages in accordance with internal business policies and stock market conditions rather than being forced to sell securities which may have a high value[8] on an arbitrarily selected date merely because the unrealized fair market value of the securities on that date would trigger the accumulated earnings tax. The value of a particular stock would depend upon a wide array of imponderables relating principally to the condition of the company whose stock was held, and the myriad of factors that affect the stock market itself—such as whether Henry Kissinger should go to Paris on December 30th—all far beyond the control of the company holding the investment. Adoption of the government's position would require businessmen to employ persons specializing in crystal ball gazing rather than sound business management.

Accordingly, the government is ordered to refund all accumulated earnings taxes, including interest thereon, collected for the taxpayer's fiscal years ended June 30, 1965, and June 30, 1966.

SO ORDERED, this 6 day of October, 1972.

/s/ Charles A. Moye, Jr.
United States District Judge

8. A situation which might not have been true a month or even a day before that arbitrarily selected date.

IN THE
UNITED STATES DISTRICT COURT FOR THE
NORTHERN DISTRICT OF GEORGIA
ATLANTA DIVISION

(Title Omitted in Printing)

JUDGMENT

(Filed May 3, 1973)

Upon review of the record herein, it appears that—

1. All the issues joined by the parties hereto were as follows:

(a) Whether the plaintiff retained its earnings and profits for one or more of its taxable years ended June 30, 1965, and June 30, 1966 ("taxable years"), beyond the reasonable and reasonably anticipated needs of its business;

(b) Whether, in determining the amount of the plaintiff's net liquid assets at the close of each of the suit years, for purposes of determining the applicability of Section 533(a) of the Internal Revenue Code of 1954, the plaintiff's marketable securities should properly be taken into account at their cost, as the plaintiff contends, or at their fair market value (less the cost of converting them into cash), as the defendant contends;

(c) If the plaintiff retained its earnings and profits beyond the reasonable and reasonably anticipated needs of its business for one or more of the taxable years, whether one of its purposes in so doing was the avoidance of income tax with respect to its shareholders;

(d) Whether interest on accumulated earnings taxes was lawfully assessed against and collected from

the plaintiff by the defendant for the periods from the due dates of the plaintiff's federal income tax returns to the date which occurred ten days after the notice and demand date for payment of such taxes; and

(e) Whether $12,525.16 and $15,025.08 which the plaintiff paid in each of the taxable years to Messrs. Ivan Allen, Sr., and Ivan Allen, Jr., respectively, constituted as to each a reasonable allowance for salary or other compensation for personal services actually rendered.

2. The parties have stipulated that the answer to Issue (a) above would be in the negative and in the plaintiff's favor in the event Issue (b) is resolved in accordance with the contention of the plaintiff as stated in said Issue (b).

3. The Court resolved Issue (b) in accordance with the plaintiff's contention and on October 6, 1972, ordered the defendant "to refund all accumulated earnings taxes, including interest thereon, collected for the taxpayer's fiscal years ended June 30, 1965, and June 30, 1966."

4. In view of the Court's Order of October 6, 1972, a resolution of Issue (c) above is not required.

5. The defendant has refunded to the plaintiff the interest with which Issue (d) above is concerned, together with interest thereon as provided by law, and the parties have stipulated that said issue should be dismissed with prejudice, each side to bear its own costs with respect thereto. On October 26, 1972, the Court so ordered.

6. Issue (e) above, sometimes referred to herein as "the salary issue," has been resolved on the basis of a settlement agreement of the parties and the parties have stipulated that such issue should be dismissed with prej-

udice, each side to bear its own costs with respect thereto. On May 3 (M), 1973, the Court so ordered.

7. All the issues herein have been resolved on the basis of action of the parties and the Order of the Court. Thus, in view of the foregoing, the plaintiff is entitled to recover from the defendant the accumulated earnings tax assessed against and collected from it by the defendant for the taxable years involved herein. Accordingly—

It is ORDERED and ADJUDGED

1. That the plaintiff, Ivan Allen Company, recover from the defendant, the United States of America, the sum of $150,515.85 in accumulated earnings tax paid to the defendant for the taxable years ended June 30, 1965, and June 30, 1966, plus interest thereon as provided by law, and

2. That the plaintiff, Ivan Allen Company, recover its taxable costs from the defendant, the United States of America, to the extent such costs are attributable to the issue relating to the accumulated earnings tax involved.

Dated at Atlanta, Georgia, this the 3 day of May, 1973.

Approved:

Charles A. Moye, Jr.
United States District Judge

Ben H. Carter
Clerk of Court
By: /s/ Peggy L. Edmunds
Deputy Clerk

Approved as to Form:

/s/ Kirk McAlpin
Counsel for Plaintiff

/s/ Jack D. Warren
Counsel for Defendant

IVAN ALLEN COMPANY, Plaintiff-Appellee,

v.

UNITED STATES of America, Defendant-Appellant.

No. 73-2866.

United States Court of Appeals,

Fifth Circuit.

May 3, 1974.

In proceedings concerning propriety of application of accumulated earnings tax penalty, the United States District Court for the Northern District of Georgia, at Atlanta, Charles A. Moye, Jr., J., 349 F.Supp. 1075, concluded that securities purchased by a corporation should be valued at original cost for purposes of determining whether the corporation had accumulated excess earnings. The government appealed. The Court of Appeals, Ingraham, Circuit Judge, held that the proper valuation of the securities was their fair market value less the expense of their conversion into cash, and remanded the case for a determination as to whether one of the purposes for the accumulation had been to avoid income tax on behalf of the shareholders.

Reversed and remanded.

Internal Revenue (Key) 763.1

For purposes of determining whether corporation had accumulated excess earnings, correct evaluation for substantially appreciated securities held by corporation was fair market value less expense of conversion into cash, not original cost to corporation. 26 U.S.C.A. (I.R.C.1954), §§ 531, 532, 533(a).

Appeal from the United States District Court for the Northern District of Georgia.

Before GODBOLD, SIMPSON and INGRAHAM, Circuit Judges.

INGRAHAM, Circuit Judge:

The issue on this appeal concerns the standard for measuring the amount of a corporation's liquid assets in determining the applicability of the tax imposed upon a corporation for not distributing to its shareholders the earnings and profits that exceed its reasonable business needs.[1] More specifically, we must decide whether securities, which have appreciated substantially in value, should be measured by their original cost to the corporate taxpayer, or at the fair market value less the expense of conversion into cash. The district court held for taxpayer Ivan Allen Company, concluding that liquid assets would be measured at their original cost. Ivan Allen Co. v. United States, 349 F.Supp. 1075 (N.D.Ga., 1972). We do not agree with the district court's disposition of this case and therefore reverse.

The stipulated facts demonstrate that since 1902 Ivan Allen Company, a Georgia corporation, has sold office machinery and supplies in and around Atlanta, Georgia. In the late 1950's or early 1960's the corporate management recognized the great potential in Xerox Corp. securities and invested about $218,180 in them. Ivan Allen obviously made a wise investment because, since the purchase of the securities, their value has increased about ten times the original cost. It is the substantial appreciation of this stock that gives rise to the present controversy.

The district court, recognizing the varying standards adopted by the courts for measuring the amount of a

1. Section 531 of the Internal Revenue Code imposes the accumulated earnings tax on any corporation that, according to § 532, is "formed or availed of for the purpose of avoiding the income tax with respect to its shareholders . . . by permitting earnings and profits to accumulate instead of being divided or distributed." 26 U.S.C. §§ 531, 532.

corporation's liquid assets,[2] concluded that the proper standard was the original cost to the corporation rather than the fair market value. The parties' stipulations, in view of the court's determination, dictated the conclusion that Ivan Allen Co. had not unreasonably accumulated earnings or profits.

The Supreme Court in Helvering v. National Grocery Co., 304 U.S. 282, 58 S.Ct. 932, 82 L.Ed. 1346 (1938), stated that, when determining whether a corporation has withheld earnings in excess of reasonable business needs, "[d]epreciation in any of the assets is evidence to be considered . . . ." *Id.* at 291. Implicit in the *National Grocery* decision is the Court's concern with the actual financial status of the corporation and its ability to meet business needs from available resources. Liquidation of depreciated

2. Based on facts similar to those in the case at hand, the Tax Court in Golconda Mining Corp. v. Comm'r, 58 T.C. 139 (1972), supp. opin. 58 T.C. 736 (1972), reached a result contrary to that of the district court. Our decision today brings this court in line with the *Golconda* decision. *Golconda* is currently on appeal to the Ninth Circuit. Also consistent with *Golconda* is the case of Henry Van Hummel, Inc. v. Comm'r, P-8 Memo T.C. ¶ 64,290 (1964), aff'd 364 F.2d 746 (10th Cir., 1966), cert. den. 386 U.S. 956, 87 S.Ct. 1019, 18 L.Ed.2d 102 (1967).

There are two decisions that offer support for the district court's conclusion. American Trading & Prod. Corp. v. United States, 362 F.Supp. 801 (D.Md. 1972), aff'd 474 F.2d 1341 (4th Cir., 1973); Harry A. Koch Co. v. Vinal, 228 F.Supp. 782 (D.Neb., 1964). Arguably, the *American Trading* decision, on which the district court heavily relied, is not inconsistent with our conclusion in the instant case. In *American Trading* the corporation, like in the case at hand, had purchased securities that had appreciated substantially in value. The court held that, despite the substantial appreciation in liquid assets, this appreciation was not earnings or profits within the meaning of § 531 because it was derived from the corporation's original capital. Also, because of additional circumstances such as insider trading limitations, the securities were not as liquid as they might be under ordinary circumstances, and therefore were not readily available to meet the corporation's business needs. *See* Comment, Accumulated Earnings Tax: Should Marketable Securities be Valued at Cost or at Fair Market Value in Determining the Reasonableness of Further Accumulations of Income? 40 Brooklyn L.Rev. 192 (1973).

assets may not produce adequate funds to meet needs arising in the course of business.

Unlike *National Grocery,* the liquid assets in the case at hand have appreciated in value rather than depreciated, but the underlying principle is still applicable. Because the liquid assets can be easily converted into cash, the appreciated value of the securities is readily available to meet the business needs of the corporation as they arise. To accurately determine Ivan Allen's ability to meet business needs from its available resources, the appreciated value of the securities must be taken into account. As unrealized depreciation of liquid assets is considered in determining whether a corporation has unreasonably accumulated profits, unrealized appreciation likewise must be considered.

We are supported in this conclusion by our decision in Battelstein Investment Co. v. United States, 442 F.2d 87 (5th Cir., 1971). The taxpayer in *Battelstein* had sold real estate and received in return a partial initial cash payment and a long term note for the unpaid balance. Holding that the discounted value of the note, although yet unrealized gain, should be considered in determining whether the corporation had unreasonably accumulated profits, Chief Judge Brown stated:

> "Looking ahead—as the concept of reasonable accumulating contemplates—Taxpayer, as it surveyed the future at FY 1963's end, could not ignore this rich resource. This bluechip note effectually secured by gilt-edged Houston land was then worth not less than the discounted value. Granted that for income tax purposes the deferred payments did not constitute 'income' or 'earnings' for FY 1963 the discounted value of this highly liquid asset had to be reckoned with in weighing foreseeable, planned (i) needs against (ii) available resources at the time of need."

Id. at 89. Like the note in *Battelstein,* the securities involved in the case at bar are of such a highly liquid character as to be readily available for business needs that might arise. Thus the appreciated value of these securities should be taken into account when determining whether the corporation has accumulated profits in excess of reasonable business needs.

We are not persuaded by taxpayer's argument that our conclusion to take into account the appreciation of the securities is inconsistent with sound business practices. Because of the day to day fluctuation of the stock market, taxpayer argues, the appreciation of the securities is not truly an available resource for meeting business needs. But while it is true that the stock market is highly unpredictable, we still believe that the fair market value is a closer approximation of available resources than simply the historical cost.

Nor do we think that our decision imposes undue limitations on the exercise of the corporation's sound business judgment in the conduct of its financial affairs. In no way do we attempt to dictate any point in time when appreciated assets are to be sold, exchanged or distributed to the shareholders. This decision does not force the corporation to liquidate these securities at any time when a sale would be financially unwise, but only compels the corporation to comply with the proscriptions of the Code and refrain from accumulating excessive earnings and profits. That taxpayer, as a consequence of its own sound judgment in making profitable investments, must sell, exchange or distribute to the shareholders assets in order to avoid an excessive accumulation of earnings and thus

comply with the Code's requirements is no justification for precluding its application.

Having concluded that the proper standard for determining the amount of taxpayer's liquid assets is the fair market value less the expense of converting them into cash, we reverse and remand for the additional factual determination of whether one purpose for the accumulation was to avoid income tax on behalf of the shareholders.[3]

3. Section 533(a) of the Code provides in part that "the fact that the earnings and profits of a corporation are permitted to accumulate beyond the reasonable needs of the business shall be determinative of the purpose to avoid the income tax with respect to shareholders, unless the corporation by a preponderance of the evidence shall prove to the contrary." 26 U.S.C. § 533(a). It has been stipulated that, if the measure for determining the amount of liquid assets is the original cost to the corporation, then the corporation has not unreasonably accumulated earnings. If, however, the measure is determined to be the fair market value less the cost of conversion, then the corporation has accumulated excessive earnings. Because we conclude that the proper measure is the fair market value of the securities, we must remand for additional evidence to see if the taxpayer can prove that the accumulation was not for the purpose of avoiding income tax.

UNITED STATES COURT OF APPEALS
For the Fifth Circuit

October Term, 1973

No. 73-2866

D. C. Docket No. CA 15130

IVAN ALLEN COMPANY,
Plaintiff-Appellee,

versus

UNITED STATES OF AMERICA,
Defendant-Appellant.

Appeal from the United States District Court for the Northern District of Georgia

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Before GODBOLD, SIMPSON and INGRAHAM, Circuit Judges.

JUDGMENT

This cause came on to be heard on the transcript of the record from the United States District Court for the Northern District of Georgia, and was argued by counsel;

ON CONSIDERATION WHEREOF, It is now here ordered and adjudged by this Court that the judgment of the said District Court in this cause be, and the same is hereby, reversed; and that this cause be, and the same

is hereby remanded to the said District Court for the additional factual determination of whether one purpose for the accumulation was to avoid income tax on behalf of the shareholders in accordance with the opinion of this Court;

It is further ordered that plaintiff-appellee pay to defendant-appellant, the costs on appeal to be taxed by the Clerk of this Court.

May 3, 1974

Issued as Mandate: